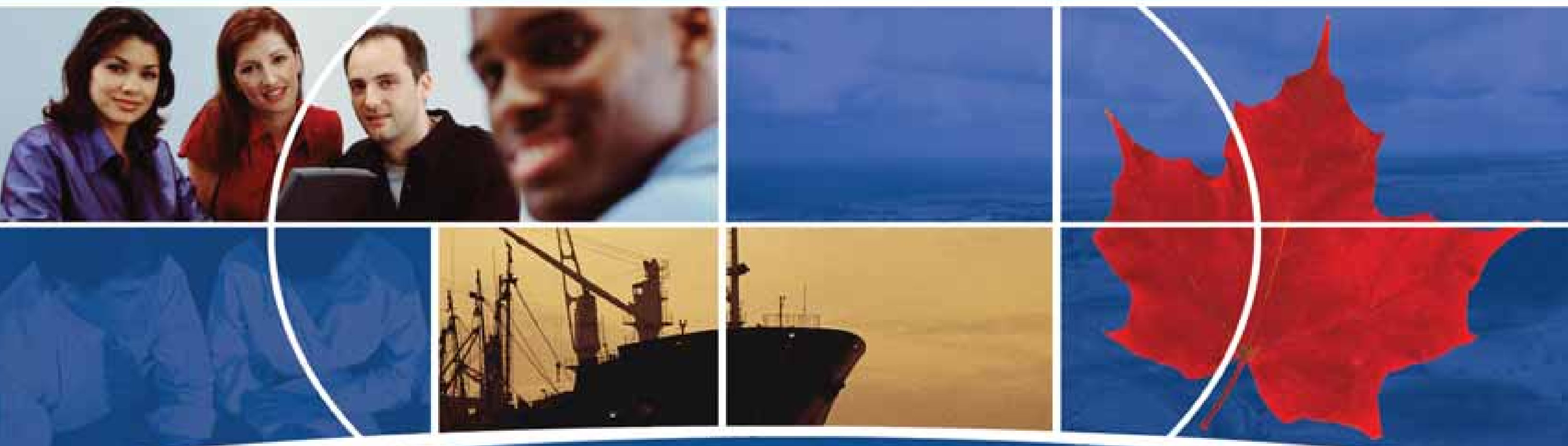

Opening Doors to the WORLD

Canada's International Market Access Priorities

2006

Foreign Affairs and International Trade Canada

Affaires étrangères et Commerce international Canada

Canada

ABOUT THIS DOCUMENT

Opening Doors to the World: Canada's International Market Access Priorities – 2006 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 2006. It also presents significant market-opening results from 2005 that will benefit Canadian business. This document is complemented by an online database of existing individual foreign trade barriers, and can be found at **http://www.dfait-maeci.gc.ca/tna-nac/cimap-en.asp**.

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 and territorial governments and, of course, Canadians doing business abroad. Its contents are current up to May 2006.

Please visit our online database of foreign commercial barriers at http://www.dfait-maeci.gc.ca/tna-nac/cimap-en.asp

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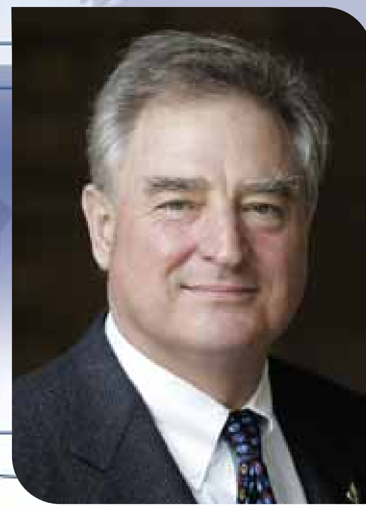

As Canada's Minister of International Trade, I am pleased to present the 2006 edition of *Opening Doors to the World: Canada's International Market Access Priorities*, which outlines Canada's market access objectives for 2006 and highlights the many successes achieved last year.

With an estimated one in five Canadian jobs linked to international trade, our nation's prosperity clearly depends on success in the global marketplace. This success is measured far beyond the traditional import and export of goods and services. It also encompasses investment, commercial collaborations, technology partnerships and all the other elements of global value chains, including multinational and regional networks of finance, production and distribution. And by making Canada a magnet for investment—by supporting Canadian investment in key markets—we will develop the supply chains necessary to ensure the free flow of trade.

We are a trading nation, and keeping Canada competitive means adapting to the new realities of the global marketplace. This means competitive domestic policies to stimulate investment and innovation, and an international framework that provides our businesses with the tools, rules, networks and corridors necessary for them to succeed on the world stage. It means actively engaging emerging global markets, by establishing new relationships and trade agreements. And it means re-energizing our commercial relationship with the United States.

With almost $2 billion in goods and services flowing between our nations every day, domestic prosperity continues to hinge on a relationship that will continue to be of paramount importance in the years to come. In 2006, Canada's new government will take steps to deepen our access to the U.S. market, and work with our American partners to make North America—as a whole—more competitive.

With that strong foundation in place, we must continue to reach out to the markets of the world, ensuring that our businesses and investors are aware of global opportunities and are well equipped to take advantage of them. We will continue to pursue foreign investment promotion and protection agreements with China and India. We are working toward a joint economic framework with Japan and free trade with Korea. And we remain committed to seeking an ambitious outcome for the World Trade Organization's Doha Development Agenda negotiations.

This year's edition of *Opening Doors to the World* introduces a new tool to help Canadian businesses succeed in the global marketplace: a supplementary online database of commercial barriers facing Canadian companies abroad, which is available on the Department of Foreign Affairs and International Trade's trade negotiations and agreements website at **http://www.international.gc.ca/tna-nac/**. I encourage you to consult this website for the most up-to-date information on how the Government of Canada is helping Canadian businesses and investors to capture global opportunities and build on the wealth and prosperity that is so fundamental to our national well-being.

The Honourable David L. Emerson, P.C., M.P.

Introduction

Canada is one of the world's economic success stories, with almost 40% of economic activity based on trade. Exposure to international competition has energized Canada's economy, spurred innovation, attracted foreign investment and created hundreds of thousands of jobs for Canadians.

Global commerce is about taking advantage of new opportunities in value-added services, agriculture, natural resources and manufacturing around the world. It is about meeting growing demands for knowledge, investment, technology and customized products wherever they occur.

Although exports are healthy, 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, services providers and investors, the Government of Canada will continue its efforts to bring down barriers to trade in key markets, strengthen the institutions and rules governing international trade and investment, forge relationships with new partners and ensure that other countries live up to their commitments.

To that effect, the Government will continue to pursue its goals multilaterally (through the World Trade Organization), regionally (through the North American Free Trade Agreement and negotiations toward the Free Trade Area of the Americas), and bilaterally with key partners (through the negotiation of free trade agreements with the European Free Trade Association, the Central America Four, Korea and Singapore and through other initiatives with the European Union and Japan).

Business and Canadians in general know that international trade underpins wealth creation and prosperity on every front of the modern Canadian economy. *Opening Doors to the World: Canada's International Market Access Priorities – 2006* outlines the Government's priorities for further improving access to foreign markets in 2006, while presenting significant market-opening results achieved over the past year.

TRENDS IN CANADIAN TRADE AND INVESTMENT

Canadian economic performance has been solid, with real gross domestic product (GDP) increasing 2.9% in 2005. This growth has been driven primarily by exports and by strong personal spending on goods and services, investment in residential and non-residential structures, and investment in machinery and equipment.

In 2005, exports of goods and services represented 37.8% of Canadian GDP. Despite the appreciation in the Canadian dollar (7%) against the U.S. dollar, exports of goods and services increased 5.2% to $516.4 billion in 2005,[1] surpassing the previous record set in 2000. Imports also rose, climbing 5.8% to $463.1 billion. The annual surplus on goods remained more or less stable at $66.7 billion, as both exports and imports rose by around $24 billion. The trade surplus with the U.S. increased to $101.4 billion, all of which can be attributed to the surplus in goods trade. Canada's goods trade deficit with the rest of the world widened to $43.9 billion. Developing economies outside the Organisation for Economic Co-operation and Development (OECD), most notably China, are accounting for an increasingly large share of Canada's deficit with non-U.S. partners;

[1] *All dollar amounts in this document are Canadian dollars unless otherwise specified.*

in 2005, the deficit with non-OECD economies reached $24.9 billion. All major categories of exports increased (led by energy products at 27.9%), with the exception of forestry products, automotive products, and agricultural and fishery products, which declined 7.4%, 2.2% and 1.7%, respectively. By geographical area, 81.4% of goods exports were destined for the U.S. Only 6.3% and 2.3% of goods exports were bound for the European Union (EU) and Japan, respectively.

At an annual total of almost $76.4 billion, services imports outpaced services exports of $63 billion in 2005. As a result, the services deficit edged up to $13.4 billion from $12.7 billion in 2004. The travel deficit increased to $1.3 billion, with fewer Americans visiting Canada and Canadians spending more visiting both U.S. and non-U.S. destinations than in the previous year. The deficit in transportation services increased to $5.8 billion in 2005, up from $4.8 billion in 2004. Higher receipts, notably for financial services, combined with lower payments for management and communication services, accounted for most of the $1.4-billion reduction in the commercial services deficit for 2005.

In 2004, Canada was the eighth most important location for foreign direct investment (FDI), with its total stock of $365.7 billion amounting to 3.4% of the world total. The top three sources of FDI in Canada were the United States (65%), the United Kingdom (8%) and France (7.6%). At the same time, Canada was the world's ninth largest source of international direct investment, with stocks of Canadian direct investment abroad reaching $445.1 billion. The top three locations for Canadian direct investment abroad were the United States (43.5%), the United Kingdom (9.9%) and Barbados (6.9%). In 2005, Canadian direct investment in the U.S. increased by $15.5 billion, but declined by $3.3 billion in all other countries combined.

At an annual total of $39.9 billion, FDI flows into Canada reached a four-year high in 2005. Foreign investment flowing into Canada was led by U.S. investors, and over half was invested in companies in the energy and metallic minerals sector. In contrast, after surging in 2004, Canadian flows of direct investment abroad dropped sharply in 2005, falling to $37.8 billion, compared with $62 billion a year earlier. The main sectors for Canadian direct investment were energy and metallic minerals, and finance and insurance.

CONSULTATION AND OUTREACH ON CANADA'S TRADE AGENDA

Effective consultations with Canadians are essential to the development and implementation of all significant international trade policies and initiatives. This is why the Department of Foreign Affairs and International Trade has a long-standing framework for public consultations and outreach aimed at engaging Canadians in the development of trade policies and initiatives. For example, the Department 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, non-governmental organizations and public interest groups are taken into account in the development of Canada's trade agenda. For further information, please visit **http://www.dfait-maeci.gc.ca/tna-nac/consult-en.asp.**

The Department particularly welcomes 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 us with specific information on tariff and non-tariff barriers, as well as 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 (CSL)
Lester B. Pearson Building
125 Sussex Drive
Ottawa ON K1A 0G2
Fax: (613) 944-7981
email: Consultations@international.gc.ca

2 Canada's Trade in Goods and Services

IMPROVING ACCESS FOR TRADE IN GOODS

Trade is a key engine driving Canada's economy. Our current and future growth and prosperity depend on open world markets and a stable, predictable and transparent trading environment. To that end, the Government of Canada aggressively pursues improved market access for trade in goods through negotiations at the bilateral, regional and multilateral levels. In the non-agricultural market access negotiations under way at the World Trade Organization (WTO), for example, the Government is seeking the reduction or elimination of tariffs. In agriculture, the Government continues to press for a more level international playing field, so that Canada's producers and processors can compete more effectively in global markets. In particular, Canada seeks the elimination of all forms of export subsidies, substantial reductions in trade-distorting domestic support, and real and significant market access improvements. In the development of common rules of origin for non-preferential trade, the Government's objectives are to achieve common rules that provide transparency and certainty for traders and that reflect the global nature of the production and sourcing of goods and materials. Canada is also pursuing an ambitious market access agenda through its regional and bilateral trade initiatives. Details on each of these initiatives are outlined in the relevant geographic sections of this document.

Another priority for Canada in its discussions at the WTO is to secure strong and binding rules on trade facilitation by building on existing WTO obligations (General Agreement on Tariffs and Trade Articles V, VIII and X) that maximize transparency and streamline customs procedures. The Government also monitors the trade remedy laws and practices of Canada's key trading partners and makes representations to foreign authorities, where appropriate. Such interventions address matters related to policies or practices that could hurt Canadian exporters in ongoing or future trade remedy cases. As well, the Government provides Canadian exporters involved in trade remedy investigations with information and advice. And in countervailing duty cases involving federal programs, the Government is a respondent and therefore actively involved in the investigation. At the WTO, Canada is pursuing improved disciplines on subsidies, greater transparency in the use of trade remedies by our trading partners, and clearer rules aimed at increasing predictability during investigations.

Softwood Lumber

The current dispute began in April 2001 when a group of U.S. lumber producers alleged that they were being injured by subsidized and dumped imports of softwood lumber from Canada. In May 2002, the U.S. Department of Commerce imposed a combined countervailing and anti-dumping duty rate of 27.22% on Canadian softwood lumber imports. The combined rate was lowered in December 2004 to 20.15% and again in December 2005 to 10.8%.

On April 27, 2006, the Prime Minister announced that Canada and the United States had reached an agreement in principle that will resolve the softwood lumber dispute and provide immediate economic benefits to Canada. For example, when lumber prices are over US$355 per thousand board feet—as they are at present—no restrictions on Canadian exports will apply. The agreement will also see some 80% of duties (approximately US$4 billion) returned to Canada. The agreement, which will last for seven years, will provide stability and certainty to the Canadian lumber industry, as well as freedom from U.S. trade action. A final agreement, which will require drafting of legal texts, is expected to be completed by the summer of 2006. With this agreement in place, Canada and the United States will able to direct their full attention to building a stronger, more competitive North America.

BSE

Following Canada's announcement of its first bovine spongiform encephalopathy (BSE) case in Alberta on May 20, 2003, most of our trading partners banned imports of Canadian cattle, beef and related products. Since then, BSE has been one of Canada's major trade priorities globally. Canada welcomes the reopening of a growing number of markets to Canadian cattle and beef, based on science. These include:

- The United States (access for cattle under 30 months for slaughter, beef from animals under 30 months, and other products);
- Mexico (access for beef from animals under 30 months);
- Honduras and Guatemala (access for boneless beef from animals under 30 months);
- Cuba (access for all beef and cattle);
- Antigua and Barbuda, Barbados, Bermuda, Cayman Islands, Jamaica, Saint Kitts and Nevis, Trinidad and Tobago (full or partial access for beef);
- Japan (access for boneless and bone-in beef from cattle 20 months and under); Macau (access for all beef); and Hong Kong, the Philippines and Vietnam (access for boneless beef under 30 months);
- New Zealand (access for all beef);
- Bahrain, Egypt, Lebanon and the United Arab Emirates (full or partial access for beef); and Lebanon, Morocco and Tunisia (access for all or some live animals); and
- Ukraine (access for breeding cattle).

Canada remains actively engaged with all trading partners with a view to full resumption of trade and anticipates a large number of further market openings in the near future.

Canada is urging all trading partners to abide by standards established by the World Organisation for Animal Health (OIE). The OIE is the relevant international standards-setting organization for animal health referenced in the WTO Agreement on Sanitary and Phytosanitary Measures. At its May 2005 meeting in Paris, the OIE announced new guidelines for BSE that reflect the most current internationally accepted scientific information on the disease. As part of the new guidelines, boneless beef from animals under 30 months is now included in the OIE list of commodities that should be eligible for safe trade, whether or not the exporting country has confirmed cases of BSE. Moreover, science-based standards have been elaborated for safe trade in other commodities including bone-in beef and beef from animals over 30 months and live additions with additional certification guarantees in recognition of the effectiveness of control measures in place, which Canada is able to meet. Canada is urging all its trading partners to resume trade based on science and the OIE standards.

IMPROVING ACCESS FOR TRADE IN SERVICES

The past decades have seen a broad structural shift toward services in the Canadian economy. Services have increased from just over half of Canada's GDP in 1961 to two thirds today. The percentage of workers employed in services is also on the rise. The sector currently employs about three Canadians in four, up from just over one in two in 1961. Moreover, between 1992 and 2002, the sector created about 80% of new jobs.

Services are, on balance, more knowledge-intensive than other sectors and therefore employ a far larger proportion of well-educated workers. Some of the best-paid jobs in Canada are in the services sector—in financial, legal, advertising, computer software and engineering services.

As a proportion of total trade, Canada's trade in services, at 14% in 2005, is less than the world average of 18.4%. In 2005, Canada exported $63 billion in services, over half of which were commercial (business) services. Exports of commercial services grew by an annual 8.7% in the period from 1990 to 2005. Compared with Canada's trade in goods, our services trade is more diversified. Although the U.S. is the dominant trade destination, more than 45% of Canada's services exports go to Europe, Latin America and Asia. Services exports to emerging markets (such as China, India and Brazil) are also becoming increasingly important.

As a country with a strong interest in expanding services exports and investments, 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 WTO, as well as the negotiation of services provisions in bilateral and regional free trade agreements, are thus important for Canada, promising to open up new markets to Canadian entrepreneurship, innovation and know-how.

At the WTO, Canada is working collectively with other members to improve market access for services exporters and to further enhance regulatory transparency. Issues for consideration during the talks include sectors of export interest to Canadian industry, current or potential export barriers facing Canadian services providers, improving access to countries that are key export destinations for Canadian services providers, and providing Canadians with access to quality services at competitive prices. Canada is seeking greater market access in sectors where there is considerable economic opportunity for Canadian services providers, including providers of professional, business, financial, telecommunications, computer and environmental services; Canada also wants to ease restrictions on the temporary movement of professionals. For further information, please visit **http://www.wto.org/english/res_e/booksp_e/special_study_6_e.pdf** (services market access issues in the context of the WTO), **http://www.dfait-maeci.gc.ca/tna-nac/TS/gats-negotiations-en.asp** (Canada's objectives in the WTO services negotiations), or **http://www.dfait-maeci.gc.ca/tna-nac/TS/bilateralregional-fta-en.asp** (Canada's participation in services market access negotiations in a bilateral and regional context).

It is important to note that barriers to services trade are not always as evident or easy to detail as those relating to goods. The international exchange of services is more complex than the movement of goods across frontiers. It is extremely difficult, sometimes impossible, to disconnect the production of services from their consumption. This means that, in addition to more familiar cross-border trade and investment transactions, in many cases either the producer or the consumer must move in order for trade to occur. For a description of the ways in which services can be traded, please visit **http://www.dfait-maeci.gc.ca/tna-nac/documents/Modes_of_Supply.pdf**.

The production and consumption of services are also subject to a range of interventions by government policies, many of which have been developed primarily to serve non-trade domestic objectives such as quality of service or consumer protection. The assessment of market access in services, therefore, must be concerned with a large range of regulations and interventions that extend beyond the traditional purview of trade policy. These various regulatory and other measures can have a negative effect on market access for services. The reduction or elimination of these market access barriers is estimated to have significant potential benefits. Please visit **http://www.oecd.org/dataoecd/63/18/35415933.pdf** for further details.

In their continuing efforts to open markets to Canadian services exporters, and to make these markets more secure and transparent, Canadian services negotiators are working to help create the international framework for exciting new opportunities for Canadian businesses.

3 Getting the International Rules Right

CANADA AND THE WORLD TRADE ORGANIZATION (WTO)

Canada's membership in the World Trade Organization is a key element of Canadian trade policy and an important avenue to achieving Canada's market access goals. The WTO governs the trade relations of the 149 members of the organization, including the European Union, Japan, other industrialized countries, emerging markets and smaller developing countries. The WTO 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 basic principles of the WTO are equal treatment for all WTO members (the most-favoured-nation clause), reciprocity in the exchange of concessions, and identical treatment of foreign and domestic products (national treatment). The WTO provides a forum for 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 power.

THE DOHA ROUND AND CANADA'S OBJECTIVES

In November 2001, at the fourth WTO Ministerial Conference in Doha, Qatar, ministers launched a new round of trade negotiations covering agricultural trade reform, market access for non-agricultural goods and for services, rules for subsidies, anti-dumping and countervailing duty actions, a multilateral registry for wines and spirits, dispute settlement, and certain aspects of trade and the environment. This broad range of issues is referred to as the "Doha Development Agenda," because of the strong focus on development that was incorporated across the negotiations in each area.

Negotiations suffered a setback at the fifth WTO Ministerial Conference in Cancun, Mexico, in September 2003, when WTO members could not agree on a way forward. However, in July 2004, WTO members agreed to a package of frameworks and other decisions that put the talks back on track and allowed them to advance to a more detailed stage. After a phase of intense engagement in 2005, which included a series of informal meetings of trade ministers, the sixth WTO Ministerial Conference was held in Hong Kong, China, from December 13 to 18, 2005. Although not as ambitious or comprehensive as Canada would have liked, the Hong Kong Ministerial Declaration provides a basis for Canada and other WTO members to continue pursuing their objectives in the negotiations. For more information on the Hong Kong Ministerial Declaration, please visit **http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.htm**.

Canada is seeking an ambitious outcome to the Doha round of negotiations by the end of 2006, so that commitments made can be approved by the relevant domestic institutions of each WTO member in the first half of 2007. An ambitious outcome to the negotiations would enable Canadian exporters to compete fairly in global markets, while increasing Canadian and global economic growth, prosperity and development.[2] Only the WTO has the critical mass of

[2] *A 2005 World Bank Study estimates the global welfare gains from liberalization in merchandise trade and reduction in agricultural subsidies at nearly $363.5 billion a year by 2015.*

countries needed to reach a deal that addresses the most harmful distortions in the international trading system, particularly trade-distorting agricultural subsidies.

In the WTO agriculture negotiations, Canada is seeking to level the international playing field for our producers and processors through the elimination of export subsidies, the substantial reduction of trade-distorting domestic support, and real and significant market access for all agri-food products. In non-agriculture market access negotiations, Canada is seeking improved access to markets of interest for our exporters, including reduced customs tariffs for all non-agricultural goods and tariff elimination in some sectors. Sectors of interest to Canada include fish products, environmental goods, forest products, chemicals and raw materials.

In services negotiations, Canada is seeking increased and more secure access to foreign services markets for professional, business, financial, telecommunications, computer and environmental services, as well as more transparent and predictable regulatory environments abroad. In rules negotiations, Canada supports improving anti-dumping and/or countervail disciplines to reduce the scope for abuse; strengthening subsidy disciplines, particularly to ensure fair competition for Canadian exporters in foreign markets; and clarifying rules on regional trade agreements. In trade facilitation negotiations, Canada's priority is to secure strong, binding rules governing trade facilitation in a manner that is both practical and meaningful to traders—the goal is to build on existing WTO obligations in a way that maximizes transparency and streamlines customs procedures.

Canada is also seeking an outcome to the Doha round that strikes a balance between development objectives and developing countries' concerns, on one hand, and Canadian commercial interests, on the other. We must ensure that the negotiations make a significant contribution to the development prospects of WTO members and lead to better integration of developing countries into the world trading system.

In pursuing Canada's trade policy, the Government of Canada will continue to press for an ambitious outcome to the Doha round that will have tangible benefits for Canada. To consolidate support for this policy domestically, the Government is engaging stakeholders—including various levels of government, businesses and non-governmental organizations—to obtain their views and build awareness of the benefits of trade liberalization through the WTO process. As part of this effort, the Government's trade policy website (**http://www.international.gc.ca/tna-nac**) will continue to provide up-to-date information on the status of the negotiations and to invite public comments on negotiating priorities and objectives.

WORLD TRADE ORGANIZATION AGREEMENT ON 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 WTO. Increased sectoral coverage and a reduction of discriminatory barriers in the United States and other key markets would create significant opportunities for Canadian exporters.

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, European Union, Japan and other key markets. Canada continues to pursue greater and more secure market access through the AGP. The ongoing review of the AGP, with a mandate to expand coverage, eliminate discriminatory provisions and simplify the Agreement, remains a priority.

ACCESSIONS OF NEW COUNTRIES TO THE WORLD TRADE ORGANIZATION

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

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

With the accession of Saudi Arabia in December 2005, the WTO now has 149 members.

Canada is active in the accession negotiations of all applicants. To date, the following 30 applicants are at various stages of the accession process: Afghanistan, Algeria, Andorra, Azerbaijan, Bahamas, Belarus, Bhutan, Bosnia and Herzegovina, Cape Verde, Ethiopia, Iran, Iraq, Kazakhstan, Laos, Lebanon, Libya, Montenegro, Russia, Samoa, Sao Tome and Principe, Serbia, Seychelles, Sudan, Tajikistan, Tonga, Ukraine, Uzbekistan, Vanuatu, Vietnam and Yemen. Canada has completed bilateral market access negotiations with Russia, Ukraine and Vietnam.

Accession negotiations take place on two tracks, multilateral and bilateral. During multilateral negotiations, a working party of interested WTO members examines the acceding country's economic and trade regime to identify the changes required to bring its laws and administrative practices into conformity with WTO agreements. In parallel with working party meetings, WTO members hold bilateral market access negotiations on goods and services with the acceding country.

By participating in working party deliberations, Canada helps ensure that accession will bring about transparent, predictable and rules-based trading practices in the acceding country's market. In bilateral market access negotiations, Canada's objective is to reduce or eliminate tariffs and non-tariff barriers to provide better access for goods and services that are of current or future export interest to Canadian firms.

Of the 30 applicants currently awaiting accession to the WTO, nine are least developed countries (LDCs): Bhutan, Cape Verde, Ethiopia, Laos, Samoa, Sao Tome and Principe, Sudan, Vanuatu and Yemen. Canada is working actively with other WTO 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 the guidelines for facilitating and accelerating negotiations with acceding LDCs, approved by the WTO General Council in December 2002.

Canadian negotiating positions for accessions are developed by federal government departments 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 at **http://www.wto.org/english/thewto_e/acc_e/acc_e.htm**.

4 Opening Doors to North America

UNITED STATES

It is difficult to overstate the importance of Canada's trade and investment relationship with the United States. Whether through the broad interdependence of bilateral exchanges, or Canada's role in North America, or the global opportunities that arise from Canada's U.S. gateways, the key to Canadian prosperity is through a healthy bilateral relationship with the U.S.

The U.S. is Canada's largest trading partner, purchasing 78% of our exports. Moreover, 95% of our bilateral trade and investment relationship is dispute-free. This relationship, which is fuelled by the increasing integration of our economies and facilitated by the rules-based trading system of the WTO and NAFTA, is quantitatively and qualitatively different from that with any other country.

In 2005, Canada's merchandise exports to the United States expanded 5.1%, largely because of increases in energy prices, which counterbalanced the dampening effect of a rising Canadian dollar. At the same time, merchandise imports from the U.S. increased only 2.8%. In 2005, 38 states counted Canada as their most important merchandise export destination. Canada also exported $33.6 billon in services to the United States in 2005, which continues to be the top market for our services exports. For further analysis of trade statistics, please visit **http://www.international.gc.ca/eet/menu-en.asp**.

The Department works to further the trade and investment relationship with the U.S. It protects and enhances Canadian access to the U.S. marketplace; helps Canadians to capture an increasing share of U.S. opportunities in goods and services trade, investment, technology commercialization and research collaboration, despite growing competition from emerging markets; and pursues policy instruments (and their enforcement), thereby strengthening the North American economic space and preparing firms to meet rapidly evolving challenges. Further information is available at **http://www.dfait-maeci.gc.ca/can-am/main/trade_and_investment/default-en.asp**. In addition, the Department encourages Canadian firms that have succeeded in one U.S. market to expand elsewhere in the U.S., and it also encourages those successful in more than one U.S. market to consider other international possibilities. For further information, please visit **http://www.infoexport.gc.ca/ie-en/MarketReportsAndServices.jsp**.

Current Issues

Despite the largely irritant-free nature of Canada-U.S. trade and investment, some challenges remain. For example, costs and uncertainties stemming from U.S. export controls in bilateral defence and aerospace trade are having various negative impacts: they are deterring U.S. firms from working with Canadian partners, subcontractors and even subsidiaries, as well as hampering the ability of Canadian firms to compete for U.S. business. The U.S. definition and treatment of "dual nationals," especially within the International Traffic in Arms Regulations, make job-related access to controlled technologies and data difficult for security-cleared dual nationals in Canada, whether in the public or private sector. The situation puts business partnerships and government-to-government collaborations at risk and discourages investment in Canada in the defence and aerospace sector.

In addition, the overall predictability of the business environment in the United States has been affected by an overburdened U.S. patent system. Delays in administrative procedures and reviews on the part of U.S. patent authorities, combined with the relative speed of the U.S. judicial system, create a situation conducive to abuses through extensive patent litigation in U.S. courts. As well, investors who rely on patents must devote an increasing share of their resources to litigation, which hampers competitiveness and creates a disincentive to innovation. Research in Motion is one obvious example of a Canadian company that has faced barriers south of the border as a result of U.S. intellectual property laws.

Another issue is the impact of the U.S. Western Hemisphere Travel Initiative. The Government of Canada is closely monitoring the Initiative to ensure the secure and timely flow of people and trade across the border. Canada will assist in identifying and assessing options for acceptable documents and their supporting technologies, and in raising awareness of Canada's concerns about the potential negative effects of the Initiative on commerce.

The Government will also continue to work with both the United States and Mexico on a coordinated North American approach to the regulatory and trade aspects of BSE. An overview of the BSE issue is available in Chapter 2.

For more specific information on bilateral trade and investment issues, please consult this document's associated database at **http://www.dfait-maeci.gc.ca/tna-nac/cimap-en.asp**.

Security and Prosperity Partnership

Canada participates with the U.S. and Mexico in the Security and Prosperity Partnership of North America. Some of the initiatives being pursued under the Prosperity banner might be of interest to Canadian exporters. For further details, please visit **http://www.fac.gc.ca/spp/spp-menu-en.asp**. The Government will also continue to highlight the contribution Canadian trade makes to security and defence within North America and abroad. For further information, please visit **http://www.canadianally.com/ca**.

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

There is no doubt that the North American Free Trade Agreement, now more than a decade old, has served Canada well. Canada's merchandise trade with its NAFTA partners has increased 122% since 1994, reaching $598.5 billion in 2005. Canadian merchandise exports to the United States grew at a compounded annual rate of 6.5% between 1994 and 2005. With regard to Mexico, bilateral trade in 2005 reached $17.8 billion, a 292% increase from pre-NAFTA levels (1993). Altogether, our NAFTA partners account for 84.7% of Canada's total merchandise exports.

Trade in services has also increased under NAFTA. Canada's trade in services with the United States and Mexico grew at an average annual compounded rate of 6% to reach $78.3 billion in 2003, up from $46 billion in 1994. Our trade in services with the United States reached $76.4 billion in 2005, up from $42.3 billion in 1993. Two-way trade in services between Canada and Mexico has grown at an annual compounded rate of 10.6%, to reach over $1.1 billion in 2003. Approximately 59% of Canada's services exports go to our NAFTA partners.

NAFTA has also had a positive impact on investment. Since 1994, the annual stock of foreign direct investment in Canada has averaged $264.2 billion. In 2004, total FDI in Canada reached $365.7 billion, of which more than 65% came from our NAFTA partners. FDI in Canada from the United States increased to $238.2 billion in 2004. Canadian direct investment in its NAFTA partners also grew, reaching $193.9 billion in the United States and $2.76 billion in Mexico.

Looking Forward

The trade and economic environment in which NAFTA operates has changed considerably in the past decade. The emergence of new economic players has transformed the dynamic of world trade. An increasingly integrated trading network, with global sourcing of inputs, as well as redefined markets, drives the need for greater North American competitiveness. Canada is working with its trading partners to ensure that NAFTA continues to be an effective tool for helping North America meet and beat the competition in new and emerging markets.

In responding to the new global challenges, the NAFTA partners have focused on reducing export-related transaction costs and increasing competitiveness. Key to this effort has been work to liberalize the NAFTA rules of origin.[3] This work is on an established track, producing improvements to the NAFTA rules of origin each year for the last two years. For example, in 2005 the three

[3] *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.*

countries implemented a package of liberalized rules of origin, covering a broad range of food, consumer and industrial products, and affecting approximately US$20 billion in trilateral trade.

On the services side, there has been work to facilitate trade through the recognition of professional credentials. In October 2005, national representatives of the architectural profession in all three countries signed a tri-national Mutual Recognition Agreement for International Practice. The Agreement outlines the circumstances under which an architect licensed and/or registered in the jurisdiction of one NAFTA party can practise architecture in the jurisdictions of the other parties. The Government of Canada is now encouraging Canadian provincial and territorial professional bodies to ratify and implement the Agreement. Seven of the 11 Canadian jurisdictions in which architecture is a licensed activity have already ratified, and the remaining jurisdictions (Manitoba, New Brunswick, Ontario and Quebec) are currently working on the ratification process. The fact that the architectural professional bodies in the NAFTA members could reach agreement is impressive given the difficulties faced by other professional bodies; their efforts should be recognized as a NAFTA success story.

Other areas of current work include the promotion of further regulatory cooperation, improvements to the temporary entry provisions and increased transparency. At this time, Canada also places high priority on safeguarding the integrity of NAFTA by ensuring that its parties fully and promptly implement decisions of the NAFTA dispute resolution panels.

Settling Disputes Under NAFTA

NAFTA provides a dispute settlement process to resolve the disputes that inevitably arise in such a large trade and economic relationship. This process comes into play 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 the Agreement. With respect to trade remedies, Chapter 19 replaces judicial review of a final anti-dumping or countervailing duty determination with review by a binational panel. Such a panel determines whether a final determination is consistent with the importing party's anti-dumping or countervail law. There are also separate dispute settlement provisions for matters under Chapters 11 (Investment) and 14 (Financial Services).

In calendar year 2005, four requests were filed for Chapter 19 panel review of U.S. anti-dumping and/or countervailing duty determinations affecting Canadian products. All concerned softwood lumber. These were followed by three requests for panel review in early 2006: two of these involved softwood lumber and one related to steel wire rod. During calendar year 2005, 13 panel reviews were active on products including softwood lumber, magnesium, wheat and steel wire rod. As well, nine panel decisions were made (three each in softwood lumber and in wheat, one in magnesium, one in steel wire rod and one in galvanized steel), and one panel was terminated. Further, a Chapter 19 panel review that had been requested by Mexico with respect to a Canadian anti-dumping action on blinds from Mexico was terminated. For more information on NAFTA panel decisions and reports, please visit **http://www.nafta-sec-alena.org/DefaultSite/index_e.aspx?DetailID=76**.

MEXICO

Mexico is a strategic commercial partner for Canada. Our trade and investment relations with that country are critical to increasing our competitiveness within North America and to meeting the challenges posed by new players in an increasingly integrated global trading network. Over the past several years, Mexico's economy has enjoyed macroeconomic stability and continued its convergence with the rest of North America in terms of interest rates and inflation. Mexico has also made progress in building a reliable and transparent regulatory environment that continues to attract foreign direct investment. Over 1,500 Canadian companies have a presence in Mexico, and a further 3,100 are currently working on their first sales in Mexico. According to Mexican statistics, Canada is now Mexico's fifth largest investor. Mexico's FDI in Canada has also been increasing as Mexican companies expand abroad in search of new markets. Based on import statistics from both countries, bilateral trade has increased nearly 300% since NAFTA entered into force, and Mexico is now Canada's fifth most important export market and third most important supplier.

NAFTA has propelled the Canada-Mexico relationship to unprecedented levels of trade, investment and cooperation. During his September 29 to 30, 2005, visit to Canada, Mexico's President Fox emphasized the need for all parties to respect the decisions of NAFTA dispute resolution panels. This position complements a key priority for Canada: to safeguard the integrity of NAFTA. For further information on NAFTA, please see the previous section in this chapter.

Trade relations between Canada and Mexico have benefited from the high-level engagement of officials from both countries. Canada and Mexico work closely together as NAFTA partners but have increasingly looked for ways to expand the relationship, including through the use of third-generation agreements such as the trilateral Security and Prosperity Partnership of North America as well as the bilateral Canada-Mexico Partnership.

Following the crisis precipitated by the detection of BSE in an Alberta cow in May 2003, Mexico was one of the first countries to reopen its borders to Canadian exports of boneless beef and certain other products under new sanitary requirements. Agreement was also recently reached with Mexico to re-establish trade for Canadian bone-in beef from animals less than 30 months of age.

In March 2005, Canada, Mexico and the United States agreed to a harmonized, science-based North American import standard for BSE that will provide continued protection of human and animal health and food safety, while establishing a framework for international trade in cattle and beef products within North America. The Government of Canada will continue to work with both Mexico and the United States on a coordinated North American approach to the regulatory and trade aspects of BSE. For more information, please see Chapter 2.

Over the past year, there have been relatively few trade irritants between Canada and Mexico despite rapidly increasing levels of trade. Challenges include a possible uptick in protectionist sentiment, particularly in agriculture, as Mexican federal elections, scheduled for July 2006, draw closer. To ensure fair access for Canadian exporters, the Government of Canada will continue to monitor the implementation of the NAFTA provisions, which include removal of remaining trade restrictions on the import of corn and beans in January 2008. These and a number of other salient issues are described in this document's associated database at **http://www.dfait-maeci.gc.ca/tna-nac/cimap-en.asp**.

In October 2004, the Canada-Mexico Partnership (CMP) was launched. This high-level public-private forum is strengthening bilateral economic and policy cooperation and promoting discussion among the private and public sectors at the highest levels. The partnership helps focus additional efforts on important issues, such as competitiveness, in a manner that complements existing work. Additionally, the CMP's mandate includes identifying obstacles to trade and investment and making recommendations for their removal. The expanding partnership now includes six working groups: competitiveness, agri-business, urban development, housing, human capital and energy. On September 30, 2005, during the visit of President Fox to Western Canada, the first CMP Report to Leaders was released. The CMP working groups last met in Mexico City on March 7 and 8, 2006, to develop and advance workplans. For further information, please visit http://www.itcan-cican.gc.ca/cmp-en.asp.

5 Opening Doors to Latin America and the Caribbean

Canada's relationship with the countries of South America, Central America and the Caribbean is long-standing and multi-dimensional. Canadian trade with the Caribbean dates back to the 18th century, while Canadian investment in Brazil—the linchpin country—was established by the end of the 19th century. The relationship with the region is now massive and growing quickly.

In 2005, Canada's exports of goods to Latin America and the Caribbean stood at $5 billion, up 20% over the figure for 2004. Canadian exports to the region are a mix of commodities, semi-finished and fully finished products, including high-technology items. Preliminary analysis indicates that about 40% of these exports are commodities, while about 60% are semi-finished or fully finished products. Latin America and the Caribbean are also a significant market for Canadian services exporters. In 2003 (the most recent year for which statistics are available), Canada exported $4.4 billion in services to this region.

FREE TRADE AREA OF THE AMERICAS (FTAA)

At the November 2005 Summit of the Americas in Argentina, Canada and the great majority of the countries of the hemisphere reaffirmed their commitment to the FTAA, which remains the best vehicle for trade and investment liberalization and for helping achieve the broader Summit objectives of prosperity, equity and democracy in the hemisphere. While a date for resumption of formal FTAA negotiations has not been set, Canada will support the two co-chairs of the FTAA (Brazil and the U.S.) in efforts to bridge outstanding differences among members on the scope and ambition of an eventual agreement. Canada also supported Colombia's efforts in 2005 to consult with FTAA participants on ways to move the negotiations forward.

The proposed FTAA was launched by leaders of the 34 democratic countries of the Americas in 1994. Excluding Canada's NAFTA partners, two-way merchandise trade with FTAA countries totalled $18.9 billion in 2005. The stock of Canadian direct investment in these countries has grown rapidly, climbing from $6 billion in 1990 to $60 billion in 2004. Canada's services exports to the non-NAFTA FTAA region are also growing and totalled $2.7 billion in 2003.

MERCOSUR AND BRAZIL

Mercosur

Bilateral trade between Canada and the Mercosur bloc (Argentina, Brazil, Paraguay and Uruguay) totalled $5 billion in 2005. That year, Canada's merchandise exports to Mercosur amounted to $1.3 billion while imports stood at $3.7 billion. Canada's services exports to Brazil and Argentina totalled $339 million and $78 million, respectively (2003 data). Data on Canadian services exports to the other Mercosur countries are not available at this time.

Canada has a strong commercial relationship with Mercosur, and has signed a number of bilateral arrangements with individual Mercosur countries, including double taxation agreements with Brazil (1984) and Argentina (1993), foreign investment promotion and protection agreements (FIPAs) with Argentina (1993) and Uruguay (1999), and air services agreements with Brazil (1986) and Argentina (1979). Canada and Mercosur have also signed a Trade and Investment Cooperation Arrangement (1998). Canada and Mercosur are interested in further enhancing their trade and investment ties andcontinue to explore which policy tools and instruments are best suited to promoting this objective.

On December 9, 2005, Mercosur initiated the process for the accession of Venezuela as a state party to the bloc. Venezuelan accession to the Mercosur founding treaties and its body of legislation is the subject of ongoing negotiations. In 2005, Canada's exports to Venezuela were $685.8 million, and bilateral trade totalled $2.5 billion.

Brazil

Brazil represents 80% of Mercosur's economic strength in nominal GDP, making it the bloc's most influential member and leader. Brazil has South America's largest GDP (US$795.9 billion in current dollars for 2005), and annual economic growth is expected to average 3.5% over the period to 2010.[4] Brazil's merchandise imports may reach $104 billion by 2010, up 28% from an estimated $81 billion in 2005.

In 2005, Canada's merchandise exports to Brazil stood at $1.1 billion while bilateral trade totalled $4.2 billion, making Brazil our second largest trading partner (after Mexico) in Latin America. Brazil is also the second largest recipient of Canadian direct investment (after Chile) in South America: in 2004, the stock of Canadian direct investment in Brazil increased 16.8% over the previous year to $6.4 billion. Brazil's economic and financial stability, as well as its prosperity, make this country a high priority for Canadian trade and investment.

CHILE

The Canada-Chile Free Trade Agreement (CCFTA) has been a tremendous success since its entry into force on July 7, 1997. Two-way merchandise trade has increased from $718 million in 1997 to $2.1 billion in 2005. The stock of Canadian direct investment in Chile reached $6.6 billion in 2004, concentrated mainly in the mining sector, according to the Canadian Embassy in Chile. Services exports to Chile totalled $114 million in 2003.

Canada and Chile continue to work toward broadening the CCFTA. Work on a chapter on government procurement, including both market access and extended transparency commitments, is nearing completion. In addition, negotiations for the inclusion of a chapter on financial services are currently taking place.

ANDEAN COMMUNITY

In 2005, bilateral merchandise trade with the Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) totalled $5.5 billion, while Canadian exports to the region increased 26.6% over 2004 to reach $1.6 billion. The Canadian stock of direct investment in the Andean Community amounted to $3 billion in 2004. Canada's services exports to Colombia totalled $49 million, while those to Venezuela totalled $104 million (2003 data). Data on Canadian services exports to the other Andean Community countries are not available at this time.

In August 2002, Canada began exploring the possibility of a free trade agreement (FTA) with all five Andean Community countries at their request. Consultations with Canadian stakeholders revealed broad support for a Canada-Andean Community FTA. Colombia and Peru have recently completed FTA negotiations with the United States, and negotiations between Ecuador and the U.S. are ongoing. As the implementation of FTAs between the United States and the Andean Community countries could affect Canadian interests in the region, the Government of Canada will consider steps to ensure the competitiveness of Canadian exporters in these markets.

Canada signed a Trade and Investment Cooperation Arrangement with the Andean Community in 1999, and has FIPAs in place with Ecuador (1997) and Venezuela (1998). Canada is actively negotiating a FIPA with Peru, and has double taxation agreements with Ecuador (2001), Peru (2003) and Venezuela (2005).

Canada's priorities for the Andean Community in 2006 will be to continue representations for the elimination of discretionary import licensing and for the resumption of trade in beef from Canada, and to work to resolve investment disputes with Venezuela in accordance with the principles of transparency and the due process of law. Colombia is reducing the role of government in its economy and is encouraging private sector participation, particularly in oil and gas and in mining. Other members are increasing the role of government in their economies, particularly in oil

[4] *Data from Goldman Sachs,* Global Economic Paper No. 99*, October 2003.*

and gas, mining and agri-food. In Venezuela, the lack of transparency in the issuance of import permits for certain food products such as pulses, onions, potatoes and pork remains a major barrier to trade.

CENTRAL AMERICA AND THE CARIBBEAN

In 2005, Canadian exports to the Central American region (El Salvador, Guatemala, Honduras, Nicaragua, Costa Rica and Panama) amounted to $441.6 million, and bilateral trade totalled $1.3 billion. Canada's commercial interests in the region are primarily in agriculture, mining, environmental services, construction and building products, services industries and capital projects. Guatemala has the broadest economic base and is the largest economy in Central America: in 2005, Guatemala imported more than 40% of total Canadian exports to this region. Panama's services-based economy grew 5.5% in 2005, and free trade negotiations with the U.S. are currently under way.

Canada has a free trade agreement with Costa Rica. The Canada-Costa Rica FTA (CCRFTA) entered into force on November 1, 2002, becoming the cornerstone of our increasingly important bilateral trade and investment relationship. Between 2002 and 2005, two-way merchandise trade increased 36% (from $324 million to $440 million). The CCRFTA provides for progressive elimination of tariffs, demonstrating that it is possible to take into account differences in the levels of development and size of free trade partners.

Canada remains committed to concluding free trade negotiations with the Central America Four (CA4) countries (El Salvador, Guatemala, Honduras and Nicaragua), and shares their commitment to hemispheric economic integration. The CA4 countries, with the Dominican Republic and Costa Rica, concluded a free trade agreement with the U.S. in 2005. Implementation of this agreement—the U.S.-CAFTA-DR—will likely affect the competitiveness of Canadian companies.

In 2005, Canadian merchandise exports to the Caribbean Community (CARICOM) amounted to $543 million, and bilateral trade totalled $1.6 billion. In 2003 (the most recent year for which statistics are available), Canadian services exports to CARICOM totalled $1.46 billion. The 15-member Caribbean Community includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat (U.K. dependency), Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago. The Bahamas is a member of CARICOM but not of the Common Market. Canada and CARICOM have discussed the possibility of negotiating a bilateral FTA, but no time frame for the possible start of negotiations has yet been set.

The Dominican Republic is Canada's fourth largest export market for goods in the Caribbean region and one of the fastest growing import markets and duty-free manufacturing zones. In 2005, Canadian merchandise exports to the Dominican Republic totalled $145 million (up 44% from 2004). Canada remains interested in enhancing its trade and investment ties with the Dominican Republic. To that end, Canada is exploring the possibility of negotiating a foreign investment promotion and protection agreement, as well as a bilateral free trade agreement, with the Dominican Republic.

Cuba is Canada's largest market in the Caribbean, importing $447 million in Canadian goods in 2005. With investments estimated at over $1 billion, Canada is Cuba's largest foreign investor, according to the Canadian Embassy in Havana. Although the business environment in Cuba is complex, it holds many opportunities for Canadian firms. The Government of Canada remains opposed to the extraterritorial application of U.S. law and does not support an embargo on Cuba. In 1985, Canada enacted the Foreign Extraterritorial Measures Act to prohibit foreign states from taking measures that infringe Canadian sovereignty and adversely affect Canadian international trade.

6 Opening Doors to Asia

ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

Since its inception in 1989, the Asia-Pacific Economic Cooperation forum has evolved its agenda in response to developments in world trade, taking on issues such as security and corruption. During the latest APEC Economic Leaders Meeting, held in Busan, Korea, in November 2005, leaders declared their support for the WTO's Doha Development Agenda negotiations. Leaders also reiterated the importance of the Bogor goals of free and open trade and investment in the Asia-Pacific region, and pledged to work toward this goal with the Busan Roadmap. For more information, please visit **http://www.dfait-maeci.gc.ca/canada-apec/indDec-en.asp** (Bogor goals) and **http://www.apec.org/apec/leaders__declarations/2005.html** (Busan Roadmap).

Throughout 2005, Canada was involved in a number of APEC-related initiatives aimed at building capacity in developing countries, and these efforts will continue in 2006. Canada is also launching a major initiative in conjunction with New Zealand aimed at fostering private sector development as part of APEC's future trade and economic agenda. This initiative will focus on issues that affect each economy's business environment, especially as it relates to small and medium-sized firms. In 2006, Canada will continue to work with its APEC partners to advance the WTO negotiations. Canada will also continue to support efforts to improve the efficiency and effectiveness of customs procedures and requirements.

CHINA

China (excluding the Hong Kong Special Administrative Region) is Canada's fourth largest export market. In 2005, Canada's total merchandise exports to China amounted to $7.1 billion, an increase of 6% over 2004. Total merchandise imports from China increased to $29.5 billion in 2005, up 22% over 2004. In 2003 (the last year for which statistics are available), Canada exported $754 million in services to China.

China has accelerated the pace of trade and investment liberalization and reaffirmed its commitment to social and economic reform. The country 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. In 2004, China was the third most important destination in the world for foreign investment.

Canada's approach to its relationship with China takes full account of that economy's rapidly growing importance in world affairs. An economic partnership between China and Canada is a key element in supporting long-term relations and encouraging China's further integration into 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.

Canada and China engage in regular formal consultations to review matters related to economic development, trade and investment. These meetings give Canada an opportunity to register specific market access concerns and underline the importance of transparency in a rules-based market economy. Additionally, Canada and China are negotiating a FIPA.

Prime Minister Martin visited China and Hong Kong in January 2005, at the same time as a business delegation led by the Minister of International Trade. A joint action plan related to the Canada-China Strategic Working Group was released on that occasion. Later, in September 2005, Chinese President Hu Jin Tao visited Canada, and several agreements facilitating bilateral trade were signed. Among these were a renewed bilateral air agreement and a protocol on the export of horses to China.

China formally acceded to the WTO on December 11, 2001. The extensive commitments China has made to substantially lowering barriers to foreign trade and investment, as well as to increasing 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 where 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 in supporting an early conclusion to these negotiations.

HONG KONG

The Hong Kong Special Administrative Region maintains considerable autonomy in economic, trade, cultural and political affairs. Hong Kong continues to develop its own economic, fiscal and budgetary policies, reflecting its own interests and dependence on trade. Hong Kong is a member in its own right of both APEC and the WTO, and was host economy for the December 2005 WTO Ministerial Conference. Hong Kong remains an aggressively free market economy, with virtually no barriers to entry or doing business. It is also an important gateway to China for many Canadian products and services. 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 in merchandise to Hong Kong in 2005 and imported merchandise worth $560 million. Trade in services is extensive: in 2003 (the last year for which statistics are available), Canada exported $523 million worth in services to Hong Kong and imported $1.22 billion.

JAPAN

Japan remains the world's second largest economy, Canada's second largest export destination, and the fifth largest source of FDI in Canada. In 2005, two-way merchandise trade between Canada and Japan stood at approximately $23.6 billion, with exports increasing to $9.1 billion and imports to $14.5 billion. In services, Canada exported $1.8 billion and imported $3.4 billion in 2005. Bilateral investment has reached an all-time high. The stock of Canadian direct investment in Japan in 2004 amounted to some $9.6 billion, while Japanese direct investment in Canada that year totalled $10.6 billion.

Japan, Asia's largest economy, continues to chart a course of positive and sustainable economic growth, with preliminary figures suggesting the economy grew 2.7% in 2005, after posting 2.3% growth in 2004. Japan remains a key partner in the realization of the Department's goals.

In November 2005, Canada and Japan signed an Economic Framework aimed at reinforcing existing bilateral economic ties and addressing new and emerging commercial challenges and opportunities. The Framework reinvigorates the existing government-to-government dialogue, lays the groundwork for future cooperation in priority areas, and emphasizes the role of the private sector in guiding future initiatives. A key element of the Framework is a joint study of the implications of further promoting and liberalizing bilateral trade and investment. Scheduled for completion by the end of 2006, the study will be crucial in helping the two governments develop plans to ensure that the Canada-Japan economic relationship reaches its full potential.

Following a number of high-level reform initiatives by the Koizumi government, Japan's regulatory landscape has transformed and is still evolving rapidly. Despite uneven progress, Japan appears to be heading toward a more efficient approach to regulation. While the number of purely bilateral issues has declined, various industry-wide regulatory issues affecting both domestic and foreign companies (including Canadian companies) remain to be addressed. In these cases, cooperation within industries, supported by punctual government intervention, offers the best chance of success.

Japan remains a premium market, and its consumers value quality, custom-made products and services. In order to tap the full potential of this market, Canadian companies will need to focus on being both innovative and flexible.

REPUBLIC OF KOREA

Korea is a high-growth and dynamic market as well as a gateway to Northeast Asia, a region of strategic importance for Canada's commercial interests. Korea is the world's 10th largest economy, with total merchandise trade with the world reaching $660 billion in 2005. That same year, Korea was Canada's seventh largest merchandise trading partner, with bilateral trade totalling $8.2 billion. In 2003, bilateral trade in services totalled $889 million and, in 2004, two-way direct investment topped $1 billion. Korea is Canada's third largest trading partner in the Asia-Pacific region (after Japan and China).

In July 2005, Canada and Korea launched negotiations toward a bilateral free trade agreement that could deliver significant commercial benefits across many sectors of the Canadian economy—from agriculture to high-tech services. An FTA would better enable Canadian companies to tap into the value chains of globally competitive production and supply from Korean corporations; increase sales of raw materials and key technologies, products and services in that market; and use Korea as a strategic base for building an increased export and manufacturing presence in Northeast Asia, including in China and Japan.

Effective January 1, 2006, tariffs were significantly reduced for canola oil and feed peas, and Korean authorities recognized the industry-issued heat treatment certificate for Canadian softwood lumber. Separate negotiations continue on resuming trade in beef, Canada's most significant trade concern with Korea.

CHINESE TAIPEI (TAIWAN)

In 2005, Chinese Taipei ranked sixth among Canada's export markets in the Asia-Pacific region, accounting for nearly 5% of our exports to the region. Canadian goods exports to Chinese Taipei in 2005 totalled $1.3 billion, while goods imports from Chinese Taipei amounted to $3.9 billion.

Chinese Taipei's economy remains highly dependent on trade. It is a major exporter to the Asia-Pacific 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 there continues to be domestic pressure toward protectionism and non-transparent decision making, particularly with respect to certain agricultural and agri-food products.

Chinese Taipei 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.

INDIA

India is rapidly transforming from a developing country into a world economic power, increasingly drawing on foreign technology and investment. With a vibrant private sector, India continues to expand its investment abroad, particularly in high technology, power and commodities. The business services sector also plays an important role in making India a global player.

The cumulative reforms since 1991 have played a key role in transforming the Indian economy. More recently, the insurance sector has been opened to foreign companies and investment rules have been further liberalized. Legislation to reform, inter alia, the bankruptcy, competition, pension and labour regimes is also being contemplated.

Total Canada-India merchandise trade for 2005 was $2.9 billion, with a balance of $711 million in India's favour. That year, Canada's exports to India surged 25% over 2004. Such high export growth is expected to persist, and significant opportunities for Canadian manufacturers and producers will continue to emerge thanks to rising consumerism and infrastructure-building opportunities in India.

The two-way investment relationship is modest (total stocks are reported at slightly over $300 million) but likely to increase once a FIPA (currently under negotiation) comes into force. The opening of several software development centres in Canada by India-based information technology firms and investments from Indian banks point to the attractiveness of Canada as an investment destination.

Canada has made progress in furthering its commercial relationship with India, signing a science and technology cooperation agreement, negotiating a FIPA, concluding an air transport agreement and resolving a number of sanitary and phytosanitary issues. In 2005, India accepted Canada's health protocol for bovine semen and agreed to extend an interim arrangement for pulse imports. India has also shown interest in completing a plant health memorandum of understanding in the near future, which would further open doors for agricultural exports.

OTHER ASIAN PARTNERS

Association of Southeast Asian Nations (ASEAN)

The Association of Southeast Asian Nations (Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam) represents as a group a major trade and investment partner for Canada. Two-way merchandise trade in 2005 totalled nearly $11 billion, while the stock of Canadian direct investment in the region in 2004 was valued at $9 billion. Canada undertook a number of initiatives last year to re-engage with ASEAN, including hosting the first ever Canada-ASEAN Business Forum and Senior Economic Officials' Meeting. Commercial opportunities are expanding amid increased political stability, economic growth and trade liberalization in the region, which is taking on an important role in global supply chains.

Singapore

Singapore is a politically stable and economically advanced country, with skilled human resources, efficient infrastructure and excellent intellectual property protection. A strong advocate of the multilateral trading system, Singapore has signed many free trade agreements and is pursuing several others, including with Canada. Canada and Singapore enjoy a strong trade relationship, with bilateral merchandise trade totalling $1.6 billion in 2005. Two-way trade in services reached almost $1.1 billion in 2004. Singapore is Canada's second largest investment destination in Asia after Japan, with almost $3.8 billion invested in Singapore as of 2004. It is a hub for knowledge-based sectors and offers significant business and research and development (R&D) opportunities in areas such as information and communication technologies, new media, defence and security, environment, agri-food, and life sciences and biotechnology.

Vietnam

Canada's commercial relationship with Vietnam strengthened considerably in 2005, with Canadian merchandise exports soaring 84.3% to $202.5 million and imports increasing 24% to $558 million. Vietnam is a challenging market, but its economy is growing fast thanks to business-related reforms and preparations toward joining the World Trade Organization. Success stories last year included the conclusion of Canada-Vietnam bilateral WTO negotiations and the resumption of exports of Canadian boneless beef from animals under 30 months of age. Representations aimed at expanding access for Canadian beef and increasing Canadian mining activities will continue. Canada's engagement with Vietnam will continue to intensify in 2006, particularly as Vietnam is hosting the major APEC events this year.

7 Opening Doors to Europe

EUROPEAN UNION (EU)

Having surpassed the United States in population and exports, and rivalling it in gross domestic product, the European Union is now the world's largest single market. In 2005, the population of the EU numbered more than 450 million. The EU's share of the world's aggregate GDP in 2004 was 31.4% compared with 28.6% for the United States and 2.4% for Canada.

Canada's political and economic relationship with the EU is decades old. In 1976, Canada was the first non-European nation to sign an economic cooperation agreement with the then European Economic Community. This framework agreement for commercial and economic cooperation provides for regular official dialogue at several levels.

As a group, the current 25 EU member states rank as Canada's second most important trading partner, after the United States. Total trade between Canada and the EU in 2005 stood at $70.1 billion. The EU also represents the second largest source of foreign direct investment into Canada, as well as the second largest destination for Canadian direct investment abroad.

In 2005, total Canadian merchandise exports to the EU amounted to $24.6 billion, up 7.5% ($1.7 billion) from 2004 and accounting for 5.6% of Canada's global exports. Canada's merchandise imports from the EU also grew in 2005, up 8.4% to reach $45.5 billion. As a result, Canada had a deficit in its balance of trade with the EU of $21 billion. Canada's main exports to the EU are precious stones, metals, machinery, mineral fuel, electrical machinery, aircraft and wood pulp, while the main imports are machinery, mineral fuel, pharmaceutical products, vehicles, electrical machinery, medical equipment, organic chemicals, beverages, aircraft, and iron and steel. In services trade, Canada exported $12.4 billion in services to the EU. This represents a 5% annual increase since 2000.

Certain recent developments in the EU have implications for Canada. These include restrictions by certain member states on mergers and acquisitions, the expansion of the economic and monetary union, market distortions in agriculture, the harmonization of regulations for a single market, 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 WTO 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.

At the December 2002 Canada-EU Summit, leaders committed to designing a new type of forward-looking trade and investment enhancement agreement (TIEA). In December 2004, both Canada and the EU received their respective negotiating mandates for a new TIEA, and negotiations were launched on May 17, 2005. Negotiations are based on the 16 issue areas included in the TIEA Framework, endorsed by leaders at the March 2004 Canada-EU Summit in Ottawa. For further information on the TIEA Framework, please visit **http://www.dfait-maeci.gc.ca/tna-nac/rb/tiea-en.asp**.

Rather than focus on tariff elimination (which is being addressed at the WTO), the TIEA deals with other trade and investment issues important to business communities on both sides of the Atlantic. This agreement seeks to address so-called new-generation trade issues such as regulatory cooperation, investment, trade facilitation, services, intellectual property rights and other non-tariff trade barriers.

The TIEA and multilateral trade negotiations at the WTO offer much scope for enhancing our commercial relations. Many of the issues being tackled in the TIEA are also being addressed in some fashion in the WTO negotiations. In May 2006, Canada and the EU jointly decided that, given the extensive linkages to the WTO talks, it would be best to pause the TIEA negotiations until the results of the WTO negotiations are known. However, work will continue bilaterally on other ways to enhance our trade and investment relations, for example, through the regulatory cooperation framework of 2004.

EUROPEAN FREE TRADE ASSOCIATION (EFTA)

Canada's bilateral relations with the European Free Trade Association states (Iceland, Liechtenstein, Norway and Switzerland) are strong, and our commercial ties continue to grow. Two-way merchandise trade in 2005 was $10.9 billion, up 22.4% from 2004.

Negotiations for a free trade agreement with the EFTA states were launched on October 9, 1998. The last negotiating session was held in May 2000, in Geneva. Agreement has been reached on most issues, and there is a framework for a deal. Canada remains interested in concluding free trade negotiations with the EFTA countries. However, no date has been set for the formal resumption of negotiations.

The EFTA countries are developed, modern economies, offering state-of-the-art technology as well as significant potential markets for competitive Canadian exporters. An agreement would provide an opportunity for our industries to further enhance their joint venture activities and to work together to develop stronger and more efficient domestic industries.

8 Opening Doors in Other Key Markets

AUSTRALIA

In 2005, two-way merchandise trade between Canada and Australia was worth approximately $3.4 billion. During the year, Canada exported over $1.6 billion worth of merchandise to Australia, while importing goods valued at over $1.7 billion. Canada's main exports continue to be car engines, pork, aircraft, lumber, telecommunications components and wood pulp. In 2003 (the most recent year for which statistics are available), Canada exported $860 million in services to Australia, and total bilateral services trade equalled $1.3 billion.

Canada is the 11th largest investor in Australia, with $8.8 billion invested at the end of 2004. Australia is Canada's 14th largest investor, at $1.8 billion, making it the third largest investor from Asia.

Commercial relations with Australia are long-standing and cordial. 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 for Canadian goods and services. These measures include product standards, government procurement practices and trade remedy laws.

The Government of Canada will continue to make representations for improved access for pork and beef products. Canada has also requested market access for Canadian blueberries and will monitor progress on this front.

NEW ZEALAND

In 2005, Canada's exports to New Zealand amounted to $356 million, while imports were valued at $562 million. Canada's main exports to New Zealand include vehicles, machinery, fertilizers, wood and meat, and Canada is New Zealand's largest foreign supplier of these products. Canada's leading imports from New Zealand are meat, dairy products and machinery. In 2003 (the most recent year for which statistics are available), Canada exported $95 million in services to New Zealand. Total Canadian direct investment in New Zealand stood at $111 million in 2004.

Canada and New Zealand enjoy a close and relatively irritant-free bilateral relationship. They cooperate within the WTO, APEC, the ASEAN regional forum, the Commonwealth and the United Nations. They have consulted closely in multilateral trade negotiations and are both members of the Cairns Group on agriculture trade.

RUSSIA

Since 1999, Russia has enjoyed strong growth rates with an average real GDP growth of just under 6.8% per annum. Recently, this economic performance has benefited from higher-than-expected world prices for oil, gas and other major Russian export commodities. These increases have stimulated domestic demand, prompting market expansion in investment and imports.

Canada's exports to Russia surged in 2005 to $562 million, up 35% over 2004. Sales of boring and sinking equipment (oil and mining sector), wheeled tractors (forest industry), prefabricated buildings and various cuts of pork all enjoyed strong growth. In services, Canadian providers focused on various commercial services, including engineering and architecture. The total value of services exported to Russia was $251 million in 2003.

Major Canadian firms are now taking a strategic, long-term approach to Russia. While concerns remain about corporate governance, the rule of law, respect for property rights, regulatory issues and inefficient bureaucracy, the Russian government has responded with recent steps to better promote business confidence.

In December 2005, Canada concluded its bilateral WTO negotiations with Russia. The completion of negotiations with other members and membership in the WTO will contribute significantly to Russia's transition to a market economy.

KAZAKHSTAN

Kazakhstan has enjoyed significant economic growth since 2000, thanks to its booming energy sector, economic reform and foreign investment. In 2005, Kazakhstan's GDP rose 9.2%, fuelled primarily by high oil and commodity prices, but also by domestic consumption.

Canadian exports to Kazakhstan in 2005 rose 53% to $113 million. Main exports to Kazakhstan include agricultural equipment, log skidders, boring and sinking machinery, and selected industrial machinery.

The country has potential for Canadian investment in certain oil and gas spinoff areas such as 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. Under its 12-year industrial development strategy (2003 to 2015), Kazakhstan is also aiming to diversify its economy before oil output reaches a plateau.

Canada is an active participant in the WTO accession negotiations with Kazakhstan. Our 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.

UKRAINE

Ukraine's GDP growth was strong from 2000 to 2004, when it reached 12.4%. Uncertainty surrounding the 2004 presidential election, the "Orange Revolution," the outcome of the March 2006 parliamentary elections and a drop in global demand for steel (Ukraine's major export) reduced growth to 2.4% in 2005.

Total Canadian merchandise exports to Ukraine rose 43.8% in 2005 to $81.5 million. Canada's primary exports to Ukraine include various fish and pharmaceutical products and assorted industrial parts. There continues to be significant market potential for Canadian goods and services firms in agriculture, oil and gas, construction, and information and communication technology.

Ukraine's WTO accession process is at an advanced stage. However, Ukraine still has to address some outstanding multilateral issues, conclude remaining bilateral agreements and pass the required WTO-related legislation. Future WTO accession, continued transparent privatization of large state-owned companies and new foreign investment resulting from these developments should provide a significant boost to Ukraine's economy.

MIDDLE EAST AND NORTH AFRICA

The Middle East and North Africa region incorporates 19 countries, plus West Bank/Gaza. Altogether it has a population of more than 300 million. Its known conventional oil reserves represent about 56%, and its proven natural gas reserves about 27%, of the world's total. The region's large and relatively young population and rich resources offer great potential for broad industrial and agricultural development.

In addition to being a major exporter of oil and natural gas, the Middle East and North Africa region is an important and growing destination for Canadian investment and exports of goods and services. Economic development initiatives and trade and investment opportunities closely match Canadian capabilities, particularly in oil and gas supplies and services, building goods and services, agriculture, education and training, health-care management, and information and communication technologies.

Two-way merchandise trade with the region was $11.8 billion in 2005, a 22% increase over 2004. Merchandise exports in 2005 were $3.2 billion, a one-year increase of 11%. Services and investment, while hard to track statistically, play an increasingly important role. Although challenges remain, the region also presents potentially significant opportunities, such as reconstruction in Iraq.

Canada's bilateral trade with Israel has more than doubled since the implementation of the Canada-Israel Free Trade Agreement (CIFTA), from $567 million in 1997 to an all-time high of over $1.2 billion in 2005 ($429.2 million in exports to Israel; $810.9 million in imports from Israel).

The Cooperation Council for the Arab States of the Gulf (GCC) consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. A customs union was established in 2003 under which member countries apply a common tariff of 5% on most imported goods. Canadian two-way trade with the GCC was $3.2 billion in 2005, an increase of 19% over 2004. Canadian merchandise exports to the GCC accounted for almost $1.3 billion in 2005 and have increased 90% since 2001.

The economic and business environment in Iran continued to be negatively affected by political uncertainty during 2005. The prospect of UN sanctions, together with tensions related to the nuclear program issue, has dampened interest in Iran as an export market and destination for foreign direct investment. Canada has indicated that it would support its U.S. and European allies should such sanctions be formally proposed.

9 Investment

Canada welcomes international investment into Canada and recognizes that Canadian direct investment abroad can be a key strategy for Canadian-based companies that wish to succeed in the global economy. The stock of Canadian direct investment abroad increased from $98.4 billion in 1990 to $445.1 billion in 2004. Over the same period, the stock of foreign direct investment in Canada more than doubled, from $130.9 billion to $365.7 billion.

FOREIGN DIRECT INVESTMENT IN CANADA

FDI is an important determinant of Canadian productivity, contributing to the acquisition of new technologies, higher levels of innovation and R&D activity, and stronger trade performance. In 2004, the United States accounted for $238.2 billion or 65% of FDI in Canada. The European Union represented $91.2 billion or 25% of total FDI. Other significant investors included Japan ($10.6 billion) and Hong Kong ($5.3 billion). FDI assets were mainly in manufacturing (25%), energy and metallic minerals (24%), and finance and insurance (18%).

CANADIAN DIRECT INVESTMENT ABROAD

Canada is a net exporter of capital. In 2004, 43.6% ($193.9 billion) of Canadian direct investment abroad was located in the United States. A further 27% of Canadian direct investment ($118.1 billion) was based in the European Union. Other major Canadian investment locations include the Caribbean, Latin America and Japan. With 45% of the total in 2004, finance and insurance continued to be the largest sector for Canadian direct investment abroad. There were also significant amounts of Canadian direct investment in energy and metallic minerals and in manufacturing, bringing their proportions of the total stock of Canadian direct investment abroad to 22% and 16%, respectively.

CANADA'S INTERNATIONAL INVESTMENT AGENDA

Canadian firms continue to encounter investment barriers abroad, including investment prohibitions, restrictions on the scope of business activity, performance requirements, investment authorizations and residency requirements. Canada's various investment agreements thus play an important role by providing Canadian firms with a predictable foreign investment climate.

International rules do not restrict Canada's ability to regulate in the public interest, as foreign investors must abide by the same laws and regulations (e.g., on health, labour and environment) as domestic investors. The same holds true for Canadian firms present in foreign states.

Bilateral Investment Agreements

Since 1989, Canada has concluded 22 bilateral foreign investment promotion and protection agreements. These agreements assure Canadian firms that the rules governing their investments are bound by certain standards of fairness and predictability. A complete list of Canada's FIPAs can be found at **http://www.dfait-maeci.gc.ca/tna-nac/fipa_list-en.asp**.

In 2004, following a comprehensive review, Canada introduced a new model FIPA. Canada has since engaged in FIPA negotiations with China, India and Peru.

Other Regional and Bilateral Initiatives

The North American Free Trade Agreement investment chapter has served as the basis for the investment provisions in the Canada-Chile Free Trade Agreement and most of Canada's FIPAs.

Investment is also an aspect of the negotiations for a Free Trade Area of the Americas and of a free trade initiative with the Central America Four (El Salvador, Guatemala, Honduras and Nicaragua). In addition, investment is included in the free trade negotiations with Korea and Singapore.

Finally, Canada participates in regional investment discussions through the Asia-Pacific Economic Cooperation forum. The APEC economies are working to liberalize their investment regimes through a program of voluntary individual action plans. Canada's plan can be accessed at **http://www.apec-iap.org**.

World Trade Organization (WTO)

The WTO incorporates a number of investment-related rules. The Agreement on Trade-Related Investment Measures will, when completely phased in, prohibit a number of performance requirements, such as trade-balancing requirements, domestic sourcing and export restrictions applicable to goods industries.

Although investment was originally included on the Doha Development Agenda, WTO members agreed on August 1, 2004, to drop it from discussion.

Organisation for Economic Co-operation and Development (OECD)

The OECD codes and the National Treatment Instrument establish rules governing the treatment of investments. Countries adhering to these instruments are committed to the transparent and non-discriminatory treatment of investors.

Corporate Social Responsibility

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

The OECD Guidelines are a government-endorsed framework of voluntary standards for responsible business conduct. They provide recommendations on issues such as environmental protection, respect for core labour standards, anti-corruption and respect for human rights. The Guidelines apply to multinational enterprises operating within Canada and to the overseas operations of Canadian companies. They are particularly important in countries where governance structures are weak.

Canada has established a National Contact Point to work with business and other stakeholders to raise awareness of the Guidelines and assist in the resolution of issues. Further information is available from Canada's National Contact Point website (**http://www.ncp-pcn.gc.ca**) or the corporate social responsibility section of the Department of Foreign Affairs and International Trade website (**http://www.dfait-maeci.gc.ca/tna-nac/DS/csr-en.asp**).

10 Glossary

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*)

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. (*APEC: Coopération économique Asie-Pacifique*)

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*)

CCFTA:
Canada-Chile Free Trade Agreement. Implemented July 5, 1997. (*ALECC : Accord de libre-échange Canada-Chili*)

CCRFTA:
Canada-Costa Rica Free Trade Agreement. Entered into force November 1, 2002. (*ALECCR : Accord de libre-échange entre le Canada et le Costa Rica*)

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

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 AGENDA:
An agenda 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*)

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*)

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. (*Obstacles non tarifaires*)

OECD:
Organisation for Economic Co-operation 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*)

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 douanier*)

TRANSPARENCY:
Visibility and clarity of laws and regulations. (*Transparence*)

WTO:
World Trade Organization. Established on January 1, 1995, to replace the Secretariat of the General Agreement on Tariffs and Trade, it forms the cornerstone of the world trading system. (*OMC : Organisation mondiale du commerce*)

List of Acronyms

AGP	(WTO) Agreement on Government Procurement
APEC	Asia-Pacific Economic Cooperation (forum)
ASEAN	Association of Southeast Asian Nations
BSE	bovine spongiform encephalopathy
CA4	Central America Four
CARICOM	Caribbean Community
CCFTA	Canada-Chile Free Trade Agreement
CCRFTA	Canada-Costa Rica Free Trade Agreement
CIFTA	Canada-Israel Free Trade Agreement
CMP	Canada-Mexico Partnership
EFTA	European Free Trade Association
EU	European Union
FDI	foreign direct investment
FIPA	foreign investment promotion and protection agreement
FTA	free trade agreement
FTAA	Free Trade Area of the Americas
GCC	Cooperation Council for the Arab States of the Gulf (formerly Gulf Cooperation Council)
GDP	gross domestic product
LDC	least developed country
Mercosur	Southern Common Market
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Co-operation and Development
OIE	World Organisation for Animal Health
R&D	research and development
TIEA	trade and investment enhancement agreement
U.S.-CAFTA-DR	free trade agreement between the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua
WTO	World Trade Organization