



Government
of Canada

Gouvernement
du Canada

GOVERNMENT RESPONSE TO THE REPORT OF THE STANDING COMMITTEE ON FOREIGN AFFAIRS AND INTERNATIONAL TRADE



Strengthening Canada's Economic Links with the Americas

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GOVERNMENT RESPONSE

INTRODUCTION

The Government would like to thank the members of the Standing Committee for their excellent work leading to their report entitled *Strengthening Canada's Economic Links with the Americas*.

The Government pursues three key objectives in Canada's trade policy: prosperity, rules-based systems, and support for broader political goals. Prosperity is attained through better access to foreign markets for our exports, the competitive stimulus of imports, and the benefits of two-way investment flows. Rules that keep pace with the needs of our modern economy provide fair and predictable conditions for economic and social development. Support for broader political goals, including the protection of labour and environmental standards, the advancement of sustainable development and good governance, and other components of social and economic well-being, form the cornerstone of a well-balanced society.

Canada pursues these objectives primarily and most obviously with the United States; we cannot achieve prosperity without the United States. We certainly need rules to keep the conditions for trade fair, open and predictable. Such highly publicized recent cases as American actions against Canadian softwood lumber exports have arisen where we were not able to negotiate strong enough rules. Though we may not always agree on some issues, the United States is among our strongest allies on many broader political goals such as promoting labour rights and good governance.

However, the importance of the Americas to Canada is not limited to the United States. Canada's trade and economic performance is increasingly tied to our hemispheric partners. Trade with Mexico, for example, reached \$14.6 billion in 2001; Mexico is now Canada's sixth-largest export destination and fourth-largest source of imports worldwide. Strengthening these ties is both a vote of confidence in the future of the region and an effective way to support the economic development of our partners. Free trade has proven to be an effective strategy to minimize the negative effects of external shocks on Latin American economies. For example, Chile's commitment to trade liberalization, including its free trade agreement with Canada, helped it to weather the 1998 Asian crisis. In view of the current financial difficulties in the region, it is all the more important to sustain the momentum for trade liberalization.

There is no question that Canada's relationship with the Americas is increasingly important in achieving and sustaining economic and social development, not only in





Canada, but also in the hemisphere as a whole. The Government therefore appreciates the careful work the Committee has undertaken to examine the state of negotiations of the Free Trade Area of the Americas and the state of Canada's bilateral economic ties with the Americas.

A TRADE AND INVESTMENT STRATEGY FOR THE AMERICAS

Recommendation 1

“That, in order to generate economic benefits for Canada, carve out a distinct Canadian identity, build momentum for the Free Trade Area of the Americas (FTAA), and serve as an insurance policy in the event of FTAA failure, the Government of Canada aggressively pursue bilateral trade and investment agreements with Latin American and Caribbean countries as well as country groupings.”

The Government agrees that pursuing bilateral trade agreements with Latin American and Caribbean countries can generate economic benefits, promote Canadian interests and build momentum for the FTAA. Even further, free trade has proven to be an effective strategy to minimize the negative effects of external shocks on Latin American economies. Mexico and Chile, two of the countries with a number of free trade partners, were among the least affected by the 1998 Asian crisis.

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The Americas region represents Canada's most important market, and strengthening our economic ties with the region is a high trade policy priority for the Government. The FTAA negotiations, launched in April 1998, hold the potential to create the world's largest free trade area, with 800 million people and a combined gross domestic product of nearly \$17 trillion.

Strategic bilateral trade agreements are both a fallback and a complement to our hemispheric initiative. Through the North American Free Trade Agreement (NAFTA), which was preceded by the Canada-United States Free Trade Agreement (CUSFTA), Canada has assured itself access to its most important partner, the United States, and to Mexico, its sixth-largest export destination and fourth-largest source of imports. Through the Canada-Chile Free Trade Agreement (CCFTA) and, more recently, the Canada-Costa Rica Free Trade Agreement (CCRFTA), Canada secured access to two of the most stable and fastest-growing markets in the region.

Canada's standing as a leading economy (member of the G8, member of the Quad trade grouping), and our reputation for fair-minded negotiation, are probably why expressions of interest in closer trade relations continue to be heard from partners throughout the hemisphere. Canada is currently negotiating a free trade agreement (FTA) with the Central





America Four (CA4) countries (El Salvador, Guatemala, Honduras and Nicaragua). We are also holding preliminary discussions toward free trade with the members of the Caribbean Community (CARICOM — Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago), the Dominican Republic and the five members of the Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela).

Strengthening our trade relationship with countries in the Americas also provides an opportunity for Canada to promote its broader social values in the hemisphere. In this respect, Canada will continue to make labour and environmental cooperation a critical element of its approach to expanded trade in the Americas.

These initiatives will enhance Canada's trade relationship with these countries, and, at least equally importantly, they will also help the Government to form alliances to move forward issues of mutual interest and build consensus in the FTAA negotiations.

Recommendation 2

“That Canada form alliances with like-minded countries and regions within the hemisphere to encourage reluctant countries to become more active in economic integration efforts and to dissuade potential FTAA partners from resorting to protectionist measures.”

The Government fully supports this recommendation, and progress in forming these alliances is already considerable. Canada's experience with trade liberalization at all levels has been very positive, in particular at the bilateral and regional levels. The rules-based regime created by our existing free trade agreements (NAFTA and the CCFTA), combined with the World Trade Organization (WTO), has stimulated growth, raised standards of living and promoted competitive prices for consumers, setting a valuable example of the benefits of trade and investment liberalization. Our success with trade and investment liberalization is broadly recognized, placing Canada in a privileged position to encourage greater efforts on the part of our hemispheric partners to support economic integration.

Canada's commitment to the hemisphere, as evidenced by the conclusion of a bilateral FTA with Costa Rica in April 2001, and our ongoing negotiations with El Salvador, Guatemala, Honduras and Nicaragua, as well as our preliminary discussions toward free trade with the CARICOM countries, the Dominican Republic and the Andean community countries, has helped the Government develop stronger ties with its counterparts. These ties, and the recognition of the concerns of our lesser-developed hemispheric partners, have proven effective in forming alliances and building consensus in various forums and negotiations such as the FTAA.





Canada's efforts in developing these alliances have been well received by countries with a similar commitment to trade liberalization in the hemisphere. Many of our trade partners in the region have also been very active in the deepening and broadening of existing economic integration mechanisms, as well as in negotiating new agreements. Countries of the Andean Community and of the Central American Common Market, for example, have committed to strengthening their internal ties to consolidate their respective common markets. Mexico and Chile have developed a network of regional agreements that now cover a significant proportion of their trade within the hemisphere.

The recent granting by the United States Congress of Trade Promotion Authority will reinforce the U.S. Administration's capacity to demonstrate real leadership in trade negotiations and to get more involved in trade liberalization initiatives in the hemisphere. The U.S. Administration is now in a position to conclude its current negotiations with Chile and Singapore. United States Trade Representative Robert Zoellick stated in a recent interview that the Administration would also begin work on a series of other trade agreements, including, among others, a regional deal with five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua).

It must be noted, however, that the recent protectionist actions by the United States, such as the U.S. Farm Bill signed into law in May, have generated some negative sentiments and created concerns regarding the commitment of the United States to free trade. Such policies could have the potential to alienate countries in the hemisphere and create an unfair playing field, thus slowing down the FTAA negotiations.

The alliances that Canada has created with other hemispheric partners, as well as our experience in negotiating the CUSFTA and NAFTA, put us in a unique position to lead the hemisphere in its efforts toward further trade liberalization and to dissuade other countries from resorting to protectionist measures that work against economic integration.

TRANSPARENCY AND CIVIL SOCIETY PARTICIPATION

Recommendation 3

"That, Canada take on a "champion" role regarding the FTAA, mobilizing political, civil society and business support to achieve a hemispheric free trade agreement by 2005." and

Recommendation 18

"That, in order to further enhance transparency of free trade negotiations as well as civil society participation, the Government of Canada actively encourage governments within the Americas to consult widely with their populations and civil society during the FTAA





negotiating process; to render public FTAA negotiating texts; to encourage the activities of non-governmental organizations within their respective countries; and to help initiate a dialogue between business and non-governmental organizations on free trade issues.”

The Government has already taken action that is in full accordance with these recommendations. Canada’s leadership role as first chair of the FTAA negotiations was a key opportunity to demonstrate our commitment to strengthening ties within the hemisphere and to advocate a meaningful role for civil society in the FTAA. Recognizing the importance of facilitating the constructive participation of different sectors of society in relation to the FTAA, Canada was a key player in the establishment of the Committee of Government Representatives on the Participation of Civil Society (the Committee).

Since then, the Government has pursued its efforts to engage our hemispheric partners in working more closely with civil society. In February 2001, Canada tabled a proposal suggesting concrete ways for trade ministers and the Committee to do more to actively contribute to increased transparency and a more inclusive negotiation process. The proposal is available at www.dfait-maeci.gc.ca/tna-nac/civilsociety-e.asp.

In line with Canada’s proposal, at the FTAA Ministerial Meeting held in Buenos Aires in April 2001, ministers renewed and strengthened the Committee’s mandate. Since then, the Committee extended a permanent open invitation to civil societies of the hemisphere for written submissions that it shares in a timely manner with the relevant FTAA negotiators and committees. Executive summaries of the submissions received from previous invitations and reports to ministers are publicly available. The Committee also provides impetus to initiatives such as the improvement of the official FTAA Web site (www.ftaa-alca.org); the organization of national and regional seminars (Canada was an active participant in the first regional seminar, held on July 18, 2002, in Mérida, Mexico); the holding of public forums for business and civil society on the margins of FTAA ministerial meetings; and the issuance of press releases by FTAA entities after each meeting, including the agenda and the list of participating countries.

Canada has also played a leadership role in the promotion of transparency; it was at Canada’s initiative that, at the 2001 Buenos Aires meeting, agreement was reached to release the draft FTAA negotiation text. At the next Ministerial Meeting in Quito in November 2002, Canada will again seek a renewed consensus to release an updated draft of the FTAA negotiating text.

The Government recognizes that greater openness and transparency are essential to an informed debate on the FTAA and are also paramount to mobilize the support of businesses, non-governmental organizations (NGOs) and citizens on free trade issues. The Government continuously posts relevant, comprehensive and timely information on the





Department of Foreign Affairs and International Trade's Trade Negotiations and Agreements Web site (www.dfait-maeci.gc.ca/tna-nac/menu-e.asp).

The Government believes that it will be ever more crucial to take on an increased role in the final phase of the negotiations, which will see the United States and Brazil as co-chairs of the process. This final phase will no doubt present significant challenges and provide Canada with many opportunities to display its leadership in the negotiations.

OVERVIEW OF THE EXISTING LINKS

Recommendation 4

“That the federal government work in conjunction with other countries to harmonize statistical methodologies in the collection of international trade data.”

The Government, recognizing like the Sub-Committee the problem of discrepancies and inconsistencies with respect to international trade data, continues to work through Statistics Canada to address this issue. A multi-year process of merchandise trade reconciliation has been under way over the past three years, based on country priorities set out by the Department of Foreign Affairs and International Trade, notably involving Mexico but also involving several of Canada's major Asia-Pacific trading partners, to improve the consistency of international trade data. As part of this exercise, delegations from both China and Korea will be in Ottawa during the autumn of 2002. With respect to other countries, including many of those mentioned in the Sub-Committee's report, reconciliation work over the next few years will be constrained due to the need to balance the allocation of limited human and financial resources across many competing priorities.

INCREASING FORMAL ECONOMIC LINKAGE WITH THE AMERICAS

Recommendation 5

“That, given the relative importance of the United States and Mexican markets to Canadian business, the Government of Canada actively seek to remove existing impediments to trade and investment between Canada and its NAFTA partners. The government should ensure that its regulations and policies governing trade are appropriate to the level of economic integration that already exists between the three countries.”

The Government agrees with the recommendation to remove existing impediments to trade and investment between Canada and its NAFTA partners.





Whatever the yardstick—trade, investment, the movement of people or ideas—the North American region, especially the United States, is by far Canada’s first priority. If it is evident that the relationship has been extremely advantageous to us, it is equally clear that it is our most challenging one.

NAFTA has proven its value as a means of stimulating trade, investment and competitiveness. Total trade among Canada, Mexico and the United States has increased substantially since NAFTA was implemented. Canada’s total merchandise trade with the United States and Mexico was approximately \$585 billion in 2001. Two-way merchandise trade between Canada and Mexico grew 3.3 percent to reach \$14.6 billion in 2001. Canada’s merchandise trade with the United States reached \$570 billion in 2001.

NAFTA incorporates a work program that allows the parties to pursue a number of improvements with a view to keeping the Agreement fresh and relevant, and actively seeks to remove existing impediments to trade and investment. The Government’s priorities within this context are those activities that can have an important positive effect on business (e.g., simplification of rules of origin, temporary entry provisions for business people, cross-border trade in services).

Of particular interest for Canada in responding to policy concerns raised in the context of the NAFTA investor-state mechanism, the Government has pressed its NAFTA partners to clarify Chapter 11. On July 31, 2001, the NAFTA Commission adopted clarifications of the minimum standard of treatment obligation and of the investor-state dispute settlement mechanism’s transparency provisions, and NAFTA ministers instructed their experts to pursue the examination of the operation of Chapter 11 and identify possible areas for further clarifications.

Designed to keep pace with emerging challenges through its ongoing work program, NAFTA has established a strong foundation for future growth. At the 2002 NAFTA Commission meeting in Mexico, ministers reaffirmed their determination to complete the full implementation of the Agreement according to the established schedule and directed officials to review the prospects of additional trilateral work that could stimulate further the trade between the three countries. Officials will continue to identify existing impediments to trade and investment and conduct the necessary work to eliminate them through NAFTA.





Recommendation 6

“That, when negotiating future trade agreements, the federal government bear in mind the need to improve upon certain provisions of the NAFTA, such as those identified in the body of this report.”

Canada negotiates every trade agreement on its own merits, but always takes into consideration the need to improve upon the provisions of existing agreements. The Government considers the experiences learned from previous and existing agreements in all its negotiations.

The bilateral and regional free trade agreements that Canada has negotiated contain some innovative features through which it has tried to enhance cooperation, strengthen institutional capacity and promote long-term economic growth through increased economic exchanges. At the time it was signed, NAFTA’s provisions on investment, services and intellectual property were ahead of the multilateral curve; some of those provisions still are. NAFTA (and the CUSFTA before it), for example, innovated bilateral trade dispute resolution.

With respect to investment, current and future negotiations of rules will provide an opportunity for Canada to develop and advance new model provisions. These new provisions can help to address the concerns that have arisen in a NAFTA context and take into consideration the experiences learned with the work that has been done, mainly at Canada’s initiative, by the NAFTA partners in the clarification of certain provisions of NAFTA Chapter 11.

The Canada-Chile FTA, Canada’s first post-NAFTA and post-Uruguay Round bilateral agreement, also took an innovative approach to certain issues, such as a mutual exemption from the application of anti-dumping duties in the agreement. It is important to note, however, that industry prefers the pursuit of improved disciplines, as well as greater transparency and clarity in the use of trade remedy measures by our trading partners, during the negotiations in this area in the context of the WTO.

Recommendation 7

“That, as a preliminary step in enhancing its bilateral relationship with countries in Latin America and the Caribbean, the Government of Canada accelerate its efforts to complete ongoing negotiations with individual countries on Foreign Investment Protection and Promotion Agreements and double-taxation agreements.”

Enhancing its investment opportunities is essential to Canada’s ongoing international competitiveness. Foreign investment promotion and protection agreements (FIPAs)





provide important disciplines that enhance overall bilateral relationships by opening international markets and making them more secure for Canadian investors.

The Government's FIPA program includes extensive consultations with all stakeholders, including the business community, and provides a legal framework of protection to which Canadian investors may have recourse, if necessary. FIPA negotiations also complement ongoing regional and multilateral investment rule-making initiatives.

In the region, Canada has already concluded bilateral FIPAs with Barbados, Costa Rica, Ecuador, Panama, Trinidad and Tobago, Uruguay and Venezuela. Canada has also signed a bilateral free trade agreement with Chile that includes an investment protection chapter.

Investment negotiations with other countries in Latin America and the Caribbean are an integral aspect of the ongoing FTA initiatives with the Central America Four (CA4), the Caribbean Community and Common Market (CARICOM), the Andean Community countries, the Dominican Republic, and the Free Trade Area of the Americas (FTAA).

Where the tax systems of other countries in the hemisphere are similar enough to the Canadian regime to make the negotiation of a double taxation agreement (DTA) feasible, Canada has been very proactive, having already in force DTAs with Argentina, Barbados, Brazil, Chile, the Dominican Republic, Ecuador, Guyana, Jamaica, and Trinidad and Tobago. In other cases, DTAs have been signed and enacted in Canada but are awaiting approval in the partner country (e.g., Peru, Venezuela). With still other countries (e.g., Bolivia, Colombia, Costa Rica), efforts to advance negotiations continue, including, when appropriate, the provision of certain training sessions in Ottawa.

Recommendation 8

“That, in an effort to advance its goal of trade liberalization and economic integration in the Americas, the Government of Canada energetically pursue its ongoing bilateral free trade negotiations with the CA4 countries and its preliminary discussions with the CARICOM group. In light of the political opposition in Costa Rica to the Canada-Costa Rica FTA, Canada should also make an effort to promote its trade accords within the participating countries to ensure that the public is well informed about the benefits of those agreements.”

In concordance with this recommendation, Canada is energetically pursuing a bilateral free trade agreement with the Central American countries of El Salvador, Guatemala, Honduras and Nicaragua (CA4). To date, four rounds of negotiations have been held, and the fifth round will take place later this autumn. The Government expects that an agreement can be reached soon.





An agreement with the CA4 will seek to eliminate tariffs on key Canadian exports and secure preferential access for Canadian businesses to the CA4 markets. It will also include substantive provisions in the areas of services and investment. Additionally, negotiators will work at increasing cooperation with the CA4 to make trade procedures more efficient. Cooperation agreements in the areas of labour and environment are also being negotiated. Successful negotiations in these areas will build upon the commitment of the heads of state of the Americas to fundamental human rights and core labour standards and contribute to an international development strategy based on balanced and equitable growth.

With CARICOM, Canadian negotiators have met twice to exchange information and discuss the potential scope of a possible free trade agreement. It is anticipated that the scope of a possible Canada-CARICOM FTA might include market access for goods and services, investment rules, trade facilitation, dispute settlement measures, and measures to address the differences in size and levels of development of the participating economies. Parallel agreements on environment and labour would also be sought.

Canada has worked to better inform the people in the hemisphere about the benefits of free trade. When opportunities arise, officials from the Government participate in public round tables to explain Canada's experience with trade liberalization. A recent example of this work is Canada's participation in a regional seminar entitled FTAA Opportunities and Challenges for North America, which Mexico hosted in Mérida on July 18, 2002.

Canada also made efforts to assist the incoming Costa Rican Administration in addressing criticisms of the bilateral FTA. Canadian Embassy officials met on different occasions with leaders of all the political parties to explain the benefits of free trade and possible ways to deal with any necessary adjustments. On August 26, 2002, the Costa Rican Congress ratified the CCRFTA by a vote of 48 to 1. The Agreement will enter into force as soon as the necessary legal procedures have been completed. The labour and environmental side agreements were previously ratified.

Recommendation 9

“That, as a precursor to further bilateral trade liberalization within the Andean Community, the federal government agree to the organization's request for Preferential Market Access, but condition its response on the successful conclusion of negotiations on Foreign Investment Protection and Promotion Agreements and double-taxation agreements, as well as on the resolution of regulatory obstacles to Canadian investment.”

The Andean request for unilateral preferential access has been overtaken by a recent decision by both Canada and the Andean countries to discuss the possibility of bilateral free trade. An announcement to this effect was made on August 7, 2002. This autumn, the Government will launch a broad and comprehensive consultation process on the potential





scope of such a negotiation to seek input from the provinces and territories, the business community and other interested stakeholders.

As to the successful negotiation of foreign investment promotion and protection agreements or other instruments designed to encourage a transparent, rules-based environment for Canadian investors, active consideration will be given to concluding investment agreements with all Andean countries in the context of a possible free trade agreement with the Andean community.

As noted, Canada has a double taxation agreement (DTA) with Ecuador, and has signed and enacted DTAs with Peru and Venezuela, but is awaiting appropriate country approvals. Efforts with the other Andean countries advance at a pace consistent with their capacity to negotiate.

Recommendation 10

“That Canada initiate bilateral free trade negotiations with the Andean Community and the Mercosur countries, or alternatively, interested countries within those regional groupings. With Brazil already having been identified by the Government of Canada as its priority South American market, considerable effort should be devoted to improving Canada’s bilateral relationship with that country.”

On August 7, 2002, it was announced that talks would be held to discuss bilateral free trade with the five members of the Andean Community. A preliminary discussion on such an initiative was held on August 27, and a second meeting will likely be held later this autumn.

With the members of MERCOSUR (Argentina, Brazil, Paraguay and Uruguay), Canada signed a trade and investment cooperation agreement (TICA) in June 1998. This agreement lays the foundation for enhancing trade and investment relations and furthering cooperation in the FTAA, WTO and the Cairns Group.

At the last meeting under the TICA, held in November 2001 in Montevideo, Uruguay, senior officials agreed on a work plan covering issues related to trade development, connectivity and ways of strengthening customs procedures.

In the Government’s view, the mechanisms and forum offered by the TICA provide the necessary tools to manage Canada’s increasingly important trade and investment relationship with MERCOSUR. Looking to the future, the FTAA will represent the ideal mechanism to enhance and strengthen our relationship with these countries.

With respect to Brazil, the largest market in Latin America, Canada is devoting considerable attention to improving the bilateral relationship. Additional human resources





have been assigned at headquarters and in the region to work on Brazil-related files. Further, an interdepartmental working group comprising government departments already active in, or with an interest in, Brazil has been functioning very successfully. It is a forum designed to raise awareness of and interest in Brazil and to discuss an overall, strategic approach to this important market.

STRENGTHENING THE OVERALL RELATIONSHIP WITH THE AMERICAS

Recommendation 11

“That the federal government take measures to enhance its existing efforts to raise Canadian business awareness of commercial opportunities in the Americas. Additional funds should be allocated to assist the activities of Canada’s foreign diplomatic posts in this area, and greater encouragement and support provided to Chambers of Commerce throughout the Hemisphere.”

Assistance to Canadian businesses is provided by 22 Canadian diplomatic offices covering 32 countries in Latin America and the Caribbean through specialized international business development staff, both Canadian and locally engaged. Funding of international business development activities for Latin American and Caribbean posts is currently budgeted at \$22 million annually. Public consultation processes undertaken by the Government in connection with a number of ongoing or potential free trade negotiations involving the Americas (Canada-Central America Four, Canada-Andean Community countries, Canada-Dominican Republic, Canada-CARICOM, Free Trade Area of the Americas) also serve to increase the awareness of the Canadian private sector of opportunities in the region. As part of the outreach program of the Department of Foreign Affairs and International Trade (DFAIT), ambassadors, high commissioners and trade promotion officers give regular presentations to the business community throughout Canada on their respective countries of accreditation and on commercial prospects in those countries.

On the question of providing Canadian government representation in Latin America with incremental funding for business development and awareness purposes, a study is to be completed by DFAIT this fiscal year to determine how promotional budgets are best allocated to all geographic regions of the world. This will in part be influenced by the results of a public dialogue with Canadians on the subject of Canada’s foreign policy (including trade) priorities, to be carried out later this year.





Recommendation 12

“That the Parliament of Canada seek to establish closer parliamentary ties with the countries of the Americas.”

The Government fully supports Recommendation 12, urging the Parliament of Canada to establish closer parliamentary ties with the countries of the Americas. While respecting the primary role that the Parliament of Canada must play in achieving this recommendation, the Government continues to support the Parliament of Canada in this objective. The Minister of Foreign Affairs and the Minister for International Trade have publicly endorsed the importance of parliamentary diplomacy as a tool in advancing Canadian interests abroad.

The Government endorses close parliamentary ties with the Americas through the development of multilateral parliamentary initiatives in the region is the Inter-Parliamentary Forum of the Americas. Canada was a key player in the creation and establishment of this organization. The inaugural meeting was held in Ottawa, Canada, in March 2001. The Inter-Parliamentary Forum of the Americas continues to be the most encouraging mechanism to develop action-oriented parliamentary dialogue. Moreover, the Inter-Parliamentary Forum of the Americas’ links to the Organization of American States lend greater credibility and strength to its work. The Department of Foreign Affairs and International Trade (DFAIT) and the Canadian International Development Agency (CIDA) continue to work closely with Senator Céline Hervieux-Payette, President of the Inter-Parliamentary Forum of the Americas, and with John Godfrey, Chair of the Inter-Parliamentary Forum of the Americas Parliamentary Association in the Parliament of Canada, to ensure that Canada continues to be a key player in inter-American inter-parliamentary cooperation.

Bilaterally, the Government encourages the strengthening of relations with all the parliaments of the Americas, particularly in key countries such as the United States, Mexico and Brazil. Congressional liaison offices have been established in the Canadian embassies in these three countries. These offices both initiate and respond to proposals designed to bring about closer parliamentary relations. Aspects of the well-established Canada-United States parliamentary relationship are being examined both by the Standing Committee on Foreign Affairs and International Trade (SCFAIT) and by a task force of Canadian parliamentarians. The Government welcomes this examination and is prepared to assist in that work, as appropriate, in Ottawa and Washington. In a recently intensified bilateral parliamentary relationship with Mexico, the Canadian Embassy is initiating an ambitious plan of visits by several Mexican congressional committees to meet with their Canadian counterparts. The congressional relations unit provides considerable logistical and administrative support to Canadian parliamentary delegations travelling to Mexico.





DFAIT and CIDA are working with Canadian parliamentarians who have taken the initiative to establish the Global Organization of Parliamentarians against Corruption (GOPAC). The inaugural GOPAC conference will take place in Ottawa in October 2002 and is expected to attract over 50 parliamentarians from the Americas, as part of a gathering of approximately 200 parliamentarians. A regional chapter of GOPAC is in the process of being established in the Americas at a regional meeting in the autumn of 2002. The chapter will receive financial support from existing CIDA programs to organize training seminars and create a virtual network.

Recommendation 13

“That, in order to create a more integrated and efficient presence abroad, the Government of Canada ensure that greater coordination and communication be introduced between Canadian Embassies and Consular Offices abroad. Within each country, a single foreign-service strategy and explicit organizational structure should be developed.” and

Recommendation 14

“That, in order to assist with the communication and dissemination of information with regard to Canada’s trade-related initiatives, designated media contacts be established in Canadian embassies, particularly in those countries displaying considerable Canadian trade interests.”

The Government recognizes the importance of creating a more integrated and efficient presence abroad and is actively engaged in doing so. The Department of Foreign Affairs and International Trade (DFAIT) continually seeks to improve inter-post and regional cooperation in dealing in a more coordinated way with both foreign contacts and Canadian small and medium-sized enterprises as well as other public and private sector partners. It is the standard operating procedure within the Trade Commissioner Service for managers and officers to gather together to plan, collaborate on, review and assess the performance and interaction of their respective posts and programs. This is often undertaken at regional meetings.

For example, in January 2002 all trade program managers in South and Central America and the Caribbean met for three days in Bogotá. A representative of the Miami Consulate was also present to encourage greater interaction with this major U.S. city, which acts as a gateway in the Americas. Further, in March 2002 the Trade Commissioner Service held two-day regional training workshops in São Paulo and in Santiago for all of our trade and investment development employees in Brazil, Chile and Peru. Communications and cooperation among posts in countries across the region are frequent and close, and continue to develop.





In Brazil, there is already a single tri-post strategy in place. It is revisited twice per year, when heads of programs in the three Canadian missions—in São Paulo, Rio de Janeiro and Brasilia—meet to review the strategy for Brazil, including achievements to date, and define and redefine priorities. In addition, the heads of mission and heads of programs consult on a regular basis as required (e.g., on ministerial and parliamentary visits and other missions that involve multi-post input). We will continue to enhance intra-country cooperation.

There are also efforts under way within DFAIT to improve the development of country plans that integrate all aspects of Canada's objectives in a particular country, including those larger countries where Canada operates more than one diplomatic mission.

The Government agrees that the media liaison officers at embassies facilitate the dissemination and promotion of information with regard to Canada's trade-related initiatives. In addition, mission Web sites and other governmental Web sites will continue to be tools for this purpose. The Trade Commissioner Service Web site also has information for foreign companies interested in doing business with Canadian companies, in some cases in the local language.

As the Government's policy or any specific issues are developed, public affairs officers at each mission receive core communications information to be used to promote these policies. All missions share this centrally coordinated information, thus ensuring that the goals of the policy are effectively communicated and that all key partners have the same information. The information is used by embassies in the region, where appropriate, in all their outreach activities.

We will continue to build a closer working relationship between our Public Affairs and Trade programs to ensure greater exposure to Canada's trade-related initiatives.

CONCERNS OF SMALL ECONOMIES

Recommendation 15

“That Canada provide the smaller economies of the Americas with greater financial and technical resources to help build the capacity necessary for these countries to negotiate, adapt to and benefit from the FTAA. Technical assistance in the development of vocational training and literacy programs, and national strategies and programs to deal with the adjustment to free trade, should be provided.”

The Government endorses all three recommendations (15-17) on smaller economies in the FTAA process. These recommendations are consistent with the positions that the Canadian delegation to the Consultative Group on Smaller Economies has taken over the last year.





The Government agrees that Canada should continue to provide trade-related technical assistance and capacity-building assistance to enable the smaller economies of the Americas to access the benefits of the future Free Trade Area of the Americas agreement. Canadian assistance is part of a broader coordinated program of trade and development involving support from bilateral and multilateral donors. It involves the provision of technical assistance supporting a balanced trade agenda, including the promotion of effective governance. Canada will continue to play an active role in the FTAA's Consultative Group on Smaller Economies, as this is one of a number of mechanisms used to attain the appropriate level of coordination and support to meet these needs.

Recommendation 16

“That the federal government support the inclusion into the FTAA of special measures that would provide developing countries participating in the FTAA with a flexible time frame for implementing the terms of the agreement.”

The Government is willing to consider time-limited transitional measures to enable smaller economies to adapt to and benefit from new opportunities in the FTAA. However, these measures are part of the FTAA negotiating process. The measures should also be supported by appropriate trade-related technical assistance and capacity-building activities. For this reason, Canada is lending support to the creation of a Hemispheric Cooperation Plan that would provide the level of coordination and assistance required to enable smaller economies to maximize the use of transitional measures.

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Recommendation 17

“That Canada encourage other participating members of the Inter-American Development Bank to strengthen the mandate of that institution and its contribution to addressing the development requirements of countries in the Americas, as outlined in the Plan of Action of the Third Summit of the Americas.”

As chair of the Summit of the Americas process, Canada encouraged the Inter-American Development Bank (IDB), among other multilateral development banks, to participate in the drafting of the Summit Plan of Action and to cooperate during its implementation. Among the most significant results of the Quebec City Summit was the commitment made by the President of the IDB to make resources available to support the Summit process. The IDB responded strongly to the call by Canada to support the Plan of Action of the Third Summit of the Americas. Shortly after the Summit, the IDB announced that its entire lending program for the next five years would be in support of Summit commitments (approximately US\$40 billion at the Bank's present, sustainable level of annual lending). The mandates provided by the Board of Governors of the IDB coincide with the priorities endorsed by Leaders in the Summit process. Canada has also taken a leadership role in





fostering the development of a Joint Working Group of Summit Partner Institutions in order to encourage the effective use of resources provided by hemispheric and multilateral organizations, optimize effectiveness of program delivery, avoid unnecessary overlap and duplication of existing mandates, maximize funding opportunities for beneficiaries, and ensure consistency in the implementation of the Summit initiatives. This coordinating body is chaired by the Organization of American States and includes the active participation of the IDB. Members of the Working Group meet with an interest in furthering their work on Summit implementation activities. They place special emphasis on the financing of Summit mandates and citizens' engagement.

Canada will continue to work with the Bank to achieve the Plan of Action and will encourage all IDB regional and non-regional members to strengthen the mandate of the Bank to support the Summit of the Americas process and goals.

Recommendation 18

“That, in order to further enhance transparency of free trade negotiations as well as civil society participation, the Government of Canada actively encourage governments within the Americas to consult widely with their populations and civil society during the FTAA negotiating process; to render public FTAA negotiating texts; to encourage the activities of non-governmental organizations within their respective countries; and to help initiate a dialogue between business and non-governmental organizations on free trade issues.”

Please see the response after Recommendation 3 (above).

PUBLIC OPINION

Recommendation 19

“That Canada spearhead the development of a hemispheric education and awareness campaign on the merits of free trade in general, and the FTAA in particular. Consideration should be given to the use, within such a campaign, of Canadian trade experts, as well as to an enhanced employment of embassy and foreign Chamber of Commerce resources.”

Canadian diplomatic representations in the region are already active in outreach activities in their host countries, often in partnership with local Chambers of Commerce, aimed at publicizing the merits of free trade and the FTAA in particular. These outreach activities include publication of articles in the general media; use of post Web sites and one-to-one contacts by heads of mission and appropriate staff with decision makers in government, the private sector and civil society; as well as the organization of or participation in seminars,





conferences and round tables focused on this issue. The Government agrees that such activities should be intensified and, whenever possible, consideration should be given to the use of Canadian trade experts.

Recommendation 20

“That the Government of Canada encourage the use by FTAA participants of the benefits of free trade agreements to address income inequality concerns.”

The Government agrees with this recommendation and continues to encourage FTAA participants to promote a more equitable distribution of the benefits of free trade agreements and to ensure that combatting poverty and curbing income inequality remain front and centre on their domestic agendas. Attaining these objectives requires an integrated and focused approach, which is reflected in a number of elements of the Quebec City Summit.

The Summit Action Plan reflects a balanced agenda for the hemisphere, with the FTAA fitting into a broader framework of initiatives that have a direct impact on income inequality concerns. For example, in their efforts to make democracy work better, the governments of the region made a commitment in Quebec to promote transparency and good governance and to fight corruption. By promoting good governance and making governments more accountable, including promoting greater citizen participation in politics, implementation of the Action Plan will contribute to a stronger civil society and greater government responsiveness to the needs of the population at all levels.

Commitments in other areas such as education, health, labour, and gender equality will also contribute to addressing income disparities in the region. Ensuring generalized access to education, for example, will strengthen democratic institutions and promote the development of human potential, while sustaining economic growth and reducing poverty. Seeking a labour cooperation agreement at the hemispheric level could enable Canada to directly promote good governance, the rule of law and respect for fundamental workers’ rights, in turn fostering social stability and economic growth that benefits all segments of society. The creation of the Institute for Connectivity in the Americas will also make an important contribution to increasing the information available to citizens, enabling their greater participation in decision-making processes and facilitating their economic activity and development.

Recommendation 21

“That the Government of Canada diligently strive to attain FTAA consensus on the importance of achieving a comprehensive agreement to protect investment within the FTAA. NAFTA type investor-state provisions should be excluded from the FTAA agreement.”





Investment is vital to the health of the Canadian economy. As a country more oriented toward international trade and investment than any of its competitors, Canada has a vested interest in keeping the flow of trade and investment strong.

The achievement of a fair, open and secure environment for international investment is of key importance for increasing Canada's productivity and prosperity. Accordingly, the Government supports the negotiation of comprehensive investment rules in the FTAA negotiations. While negotiations are still in the early stages, the Government believes that these rules should offer investors protection from arbitrary and discriminatory actions, an issue that is at the heart of liberalized trade. In doing so, Canada's approach will be informed by its past experiences with trade negotiations and the implementation of investment rules with other countries. Canada will ensure that it preserves its ability to adopt or maintain regulations, administrative practices or other measures in sectors of key policy interest, such as health, public education, social services or culture. As is the case for other trade agreements, the FTAA investment chapter will allow countries to file exceptions for those measures they wish to maintain and would otherwise not be allowed under the FTAA (e.g., performance requirements).

Although the set of investment rules contained in NAFTA Chapter 11 has worked relatively well, the Government is not advocating the replication of the NAFTA dispute settlement rules in the FTAA. Canada continues to collaborate with its NAFTA partners to promote the clarity and transparency of these rules. Last year, trade ministers from the three NAFTA countries confirmed the proper interpretation of two important aspects of Chapter 11: one on transparency, and the other on the body of law to which the minimum standard of treatment refers, namely customary international law.

This collaborative work is not over. Following the May 28, 2002, meeting of the NAFTA Free Trade Commission, experts were directed to continue their work examining the implementation and operation of Chapter 11, including developing recommendations as appropriate. This work will not only contribute to the effective and proper implementation of the Chapter, but will also serve to increase public understanding of its operation, as well as help us to build better and more transparent rules for future agreements.





LABOUR AND ENVIRONMENT STANDARDS

Recommendation 22

“That Canada promote the injection of clauses within the FTAA Agreement that would tie countries’ access to the benefits from FTAA membership to proven respect for democratic rights.”

Canada is a consistently strong supporter and promoter of democracy. Heavily involved in supporting young and emerging democracies, Canada has gained a solid reputation and is increasingly called upon to assist in various aspects of the democratic process. Canada has participated widely in electoral observation missions mounted by such international organizations as the Organization of American States (OAS), the Commonwealth and La Francophonie. The Government believes that the focus of effort should be on the importance of implementing the human rights enshrined in existing instruments. In so doing, Canada is in fact promoting democracy and the rights and institutions that underpin a democratic society.

Since its inception in 1994, the Summit of the Americas process has been based on the tenets of democracy and economic integration, and on the recognition of a mutually reinforcing relationship between the promotion and protection of democracy and the liberalization of the economy. At Quebec City in April 2001, Summit Leaders took a further step to entrench this relationship in the hemispheric integration process by endorsing a democracy clause that establishes respect for the maintenance and strengthening of the rule of law, and strict respect for the democratic system, as essential conditions for participation in the Summit process. Leaders also invited the governors of the Inter-American Development Bank to take the clause into consideration in the activities of the Bank. Further, Summit Leaders endorsed the development of an Inter-American Democratic Charter to complement the democracy clause and “to reinforce OAS instruments for the active defence of representative democracy.” Article 19 of the Charter reflects the language of the Quebec Summit initiative, which tied participation in the Summit process to respect for democracy. OAS foreign ministers adopted the Charter in Lima, Peru, on September 11, 2001. The Charter has already proven to be a necessary instrument, as it was invoked for the first time on April 13, 2002, following an attempted coup in Venezuela.

Canada understands that the Inter-American Democratic Charter is political in nature and that the “right to democracy,” mentioned in Article 1 of the Charter, is the right of individuals to the elements of democracy as set out in relevant international instruments. Canada acknowledges that states have the obligation to promote and defend the individual human rights that constitute the elements of democracy. The term “democratic rights,” as





used in Recommendation 22, would refer to the elements of democracy such as the right to vote found in Article XX of the American Declaration on the Rights and Duties of Man and Article 25 of the International Covenant on Civil and Political Rights.

The Inter-American Democratic Charter should not be considered the definitive blueprint for the development of democracy in the Americas. Nonetheless, the Charter represents an unprecedented commitment that provides for consultation at the highest political level (i.e. Leaders or foreign ministers) among countries in the event of the disruption of the democratic system in any Summit country.

In terms of the FTAA itself, questions are being raised about the possible character of an operational relationship between the democracy clause, as reflected in Article 19 of the Charter, and the trade instrument. Discussion on this point is still in the early stages. Some Summit partners do not accept any linkage; others consider that invoking the clause and the Charter within the context of the FTAA would be an extreme measure, to be taken only at the level of Summit Leaders. The Government expects that consensus on an operational democracy clause in the FTAA will be difficult to achieve in the short term. Nonetheless, the Government has signalled its perspective that there is a relationship between the Charter and the FTAA agreement through the Quebec City Declaration and Article 19 of the Charter. The Government will initiate domestic consultations in the coming year to seek views and options to operationalize the relationship between the FTAA and the Charter.

In the context of the broader discussion in the report about labour and environmental issues, while Articles 10 and 15 of the Inter-American Democratic Charter refer specifically to core labour standards, workers' rights and the preservation of the environment, the Government notes that the report recognizes that the question of how to address these issues in the FTAA remains to be resolved.

CULTURE

Recommendation 23

“That the Government of Canada ensure its ability to preserve and promote cultural diversity by accelerating its efforts to achieve the desired New International Instrument on Cultural Diversity.”

The Government has continuously promoted the development of a New International Instrument on Cultural Diversity (NIICD) since adopting its policy in support of an Instrument in 1999. Since then, the Government has engaged the international community in various forums, including within the Americas, on the challenges that globalization poses for cultural diversity. For instance, the 2001 Declaration of the Summit of the Americas,





held in Quebec City, included a statement outlining the Leaders' perspectives on the importance of cultural diversity. As a result of the Summit's Action Plan, Canada hosted, in 2002, an experts seminar on cultural diversity under the aegis of the Organization of American States (OAS). Thereafter, OAS culture ministers or highest appropriate authorities met in July, in Cartagena, Colombia, the first ever such meeting at the hemispheric level, and adopted a Declaration and Plan of Action stressing the need for in-depth cooperation on cultural diversity within the Americas. In the Free Trade Area of the Americas negotiations, Canada's objective is to include preambular language recognizing the importance of countries maintaining the ability to develop and implement cultural policies for the purpose of strengthening cultural diversity. In addition, pending developments with respect to a NIICD, Canada will follow its established approach of not making any new commitment that would restrict its cultural policy objectives. In this context, Canada is seeking a cultural industries exemption in the FTAA agreement.

Canada has also promoted cultural diversity in the G8, where the Communiqué of the 2000 Okinawa Summit set out the Leaders' perspectives on the issue. In other forums, consideration of cultural diversity and globalization issues has led to specific references to work on the Instrument. For example, in 2001 the UNESCO General Conference passed the Universal Declaration on Cultural Diversity. Its Action Plan urged members to deepen "the international debate on questions relating to cultural diversity . . . taking forward notably consideration of the opportunity of an international legal instrument on cultural diversity." La Francophonie culture ministers, meeting in 2001, supported "the principle of a universal international regulatory instrument that supported the promotion of cultural diversity." The International Network on Cultural Policy (INCP), an informal grouping of culture ministers from over 45 countries, is another forum where work on the Instrument has progressed. An INCP Working Group, chaired by Canada, has produced a draft text of the Instrument, which was presented to ministers in Cape Town, South Africa, in October 2002. The International Network for Cultural Diversity, an NGO grouping that meets concurrently with the INCP, is expected to release its own draft Instrument in October 2002. Canada has also promoted development of an Instrument during informal meetings with important trading partners such as France, Sweden, Switzerland and Italy.

It is clear from the above that solid progress is being made toward the development of a New International Instrument on Cultural Diversity. The Government has been, and will continue to be, at the forefront of promoting such development in the context of the Americas and elsewhere.

