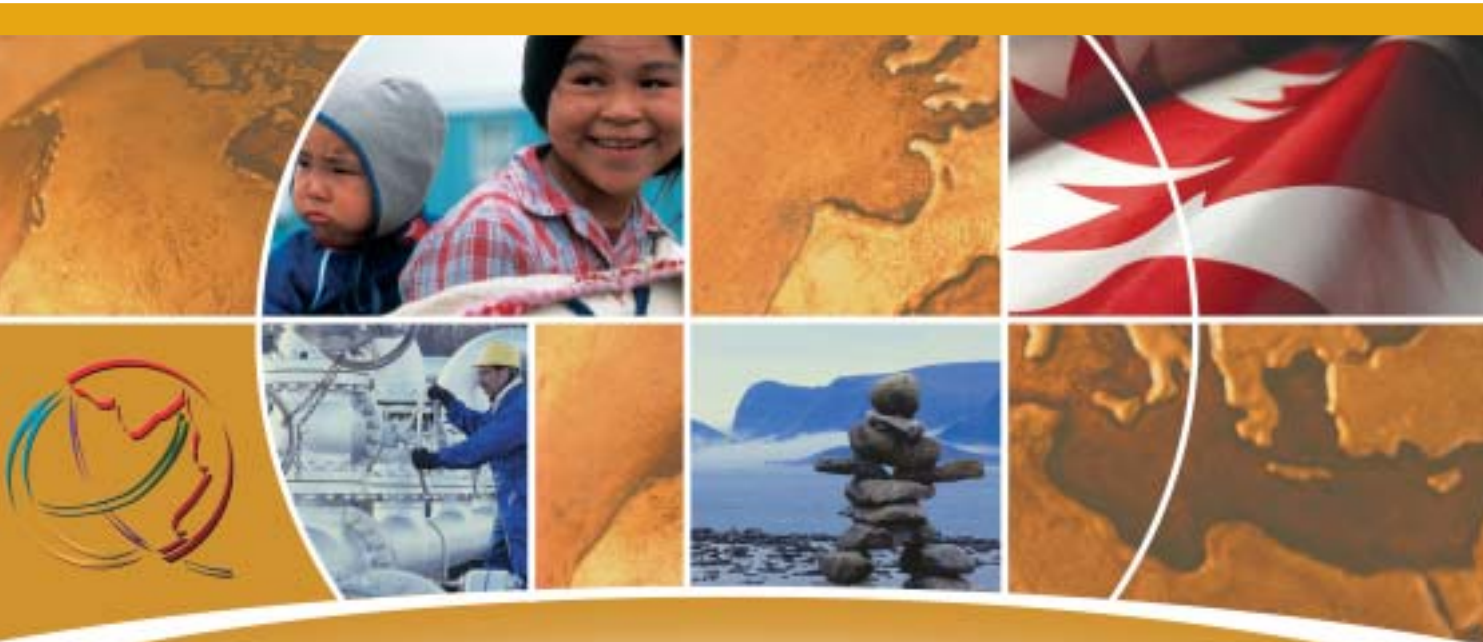




International Trade
Canada

Commerce international
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Canada



Opening Doors to the World

Canada's International
Market Access Priorities – 2004



Team Canada Inc • Équipe Canada inc



Opening Doors to the World

Canada's International
Market Access Priorities – 2004

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Unless otherwise specified, monetary figures in this document are in Canadian dollars. Merchandise trade figures appearing throughout this document are preliminary “customs basis” figures released by Statistics Canada, February 16, 2004. Services trade figures are “Balance of Payments” figures released by Statistics Canada, February 26, 2004. All investment statistics are from Statistics Canada.

ABOUT THIS DOCUMENT

O*pening Doors to the World: Canada's International Market Access Priorities – 2004* outlines the government's priorities for improving access to foreign markets for Canadian traders and investors through a range of multilateral, regional and bilateral initiatives in 2004. It also presents significant market-opening results from 2003 that will benefit Canadian business. Subjects range from Canada's broad negotiating objectives at the World Trade Organization to the details of specific bilateral trade irritants. The report is not intended as an exhaustive catalogue of government activities to improve access to foreign markets; neither is it a comprehensive inventory of foreign barriers to trade or investment.

The Department of Foreign Affairs and International Trade coordinated the preparation of this report with the assistance of its embassies and missions abroad, other federal government departments (especially Agriculture and Agri-Food Canada, Finance Canada, Industry Canada and Natural Resources Canada), provincial governments and, of course, Canadians doing business abroad. Its contents are current up to March 2004.

Opening Doors to the World: Canada's International Market Access Priorities – 2004 updates and expands on topics presented in the 2003 report, which was released in April 2003.

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MESSAGE FROM THE MINISTER OF INTERNATIONAL TRADE

I am pleased to present the 2004 edition of *Opening Doors to the World: Canada's International Market Access Priorities*. This document outlines Canada's market access objectives for 2004 and highlights the successes achieved during the previous year.

Canada's economic prosperity is highly correlated with its success as a trading nation: an estimated one out of every four jobs in Canada is linked to our export success in global markets. As part of the government's agenda to build a strong 21st century economy and to secure Canada's place in the world, a separate Department of International Trade has been created to ensure that trade and investment activities support these priorities. This will enable us to more effectively contribute to enhancing Canada's economic prosperity, including the building of a knowledge-based economy, and will permit better synergies among our trade, investment and innovation objectives. To further this broad vision, the Government of Canada remains committed to reducing and eliminating barriers to trade in key foreign markets.

In 2004, the government will continue to focus on Canada's trade relationship with its number-one market, the United States. Through the Smart Border Action Plan, we are developing a facilitative border that has helped to ensure the secure but business-friendly frontier required to accommodate the world's most comprehensive trade relationship. In addition, the government is implementing its plan to open seven new consulates in the United States, upgrade two consulates to consulates general and appoint 20 honorary consuls as part of the Enhanced Representation Initiative. This initiative is designed to improve our ability to operate with increased effectiveness in the U.S. market. Canada will continue, as a top priority, to dedicate its efforts to managing the trade relationship with the United States, with a view to ensuring cooperation on trade policy issues of mutual interest and the resolution of bilateral trade issues. In particular, Canada will continue to pursue a long-term solution on softwood



lumber, and it will work to secure a science-based reopening of the border to trade in live animals—the border was closed due to a case of bovine spongiform encephalopathy (or BSE) in Canada.

The North American Free Trade Agreement (NAFTA) provides us with a framework for managing and enhancing our trade relationship with the United States and Mexico. There is no doubt that NAFTA, which marked its 10th anniversary on January 1, 2004, has served Canada exceedingly well. It has created new opportunities for Canadian exporters and has made all three parties more competitive. According to the 2004 KPMG report *Competitive Alternatives*, Canada now ranks as the lowest-cost country for doing business among all of the G7 countries. In addition, NAFTA has contributed to a decade of significant economic growth for Canadians. Canada is committed to further expanding its trade and investment opportunities with the United States and Mexico through the NAFTA work plan.

Canada remains committed to seeking an ambitious outcome in the current World Trade Organization negotiations, as outlined by the Doha Development Agenda. Canada's key objectives are reforming world agricultural trade, increasing access to foreign markets for Canadian goods and services, and strengthening the rules governing trade. The World Trade

Organization will continue to be the cornerstone of Canada's trade policy, as well as the foundation for Canada's bilateral and regional agreements and initiatives.

Canada will continue to play an active leadership role in the formation of what will be the world's largest free trade area. The Free Trade Area of the Americas will improve access for Canadian exports to a hemispheric market of more than 800 million people and will build upon Canada's free trade agreements with the United States, Mexico, Chile and Costa Rica.

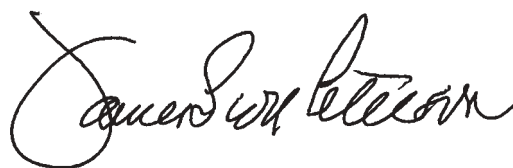
The year 2004 will also be a busy one on other trade policy fronts. With the setback in multilateral negotiations, many of our trading partners are increasing the pace of bilateral negotiations. Canadian negotiators are currently in the midst of negotiations with several countries on agreements to open markets for Canadian business and to complement broader, multilateral efforts. The government will continue its efforts to open key markets. Canada and the European Union, for example, recently agreed on a framework for a new trade and investment enhancement agreement to further stimulate our important commercial relationship. Negotiations are expected to begin this year.

The Government of Canada is dedicated to strengthening access to emerging markets and to realigning business development efforts to take advantage of the opportunities presented by these markets. Accordingly, Gar Knutson, Minister of State (New and Emerging Markets), has been mandated to support Canada's economic goals through enhanced engagement with expanding markets.

Many of the developing country markets, which currently offer significant potential for Canadian exporters, services providers and investors, will emerge as key trade and investment partners of the future. Trade-related technical assistance, capacity building, and greater institutional and policy coherence among international organizations will facilitate the full participation of developing countries in the global economy. Canada will continue to support growth and contribute to the strengthening of peace, stability and good governance in these countries.

The Government of Canada is committed to continuing to consult regularly with all stakeholders: the provinces and territories, non-governmental organizations, the business sector, municipalities and the Canadian public. This dialogue is an invaluable tool used by the government as a basis for its actions and intentions on a wide range of issues.

I would encourage interested parties to consult the trade negotiations and agreements Web site for the most up-to-date information on Canada's trade policy agenda. I invite you to register your views using the Department of International Trade Web site (www.dfait-maeci.gc.ca/trade/menu-en.asp) or the aforementioned trade negotiations and agreements Web site (www.dfait-maeci.gc.ca/tna-nac/menu-en.asp). Your views will contribute to informing and guiding the government so that together we can develop international trade and investment policies that help build Canada's 21st century economy on strong social foundations and ensure our continued prosperity.



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

INTRODUCTION

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

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

Opening Doors to the World: Canada's International Market Access Priorities – 2004 presents significant market-opening results achieved over the past year and outlines the government's priorities for 2004 to further improve access to foreign markets. The government will continue to pursue its goals multilaterally (through the World Trade Organization); regionally (through the North American Free Trade Agreement, the Asia-Pacific Economic Cooperation forum, and the negotiations on the Free Trade Area of the Americas and the Canada–European Union Trade and Investment Enhancement Agreement); and bilaterally with key partners, including through the negotiation of free trade agreements (Central America Four (El Salvador, Guatemala, Honduras and Nicaragua) and Singapore). In all cases, the government's objective will be to ensure that Canada's traders and investors benefit fully from international trade agreements.

Trends in Canadian Trade and Investment

While 2003 ended with merchandise exports and imports increasing in the month of December, both exports and imports for the year as a whole fell from 2002 levels. Canada's trade performance for 2003 as a whole suffered from the effects of BSE, SARS, the blackout, forest fires, floods, hurricanes, currency appreciation, and weak global economic conditions.

1

Introduction



Over the year, Canadian exports of goods totalled \$381 billion, down 4% from 2002, while imports were off by 3.9% to \$335 billion. Canada's annual merchandise trade surplus fell \$2 billion to \$46 billion in 2003. On average, Canada traded approximately \$2 billion per day with the world – a remarkable testament to our ability to compete, even in difficult times. The number increases to \$2.3 billion per day if services trade is also included.

Energy products were the only major commodity group to record an increase in exports in 2003. This sector posted an impressive 23.7% increase over the previous year to \$61.3 billion, accounting for 15.3% of total Canadian exports in 2003 compared to a 12% share one year earlier. Exports in other sectors declined in 2003 for the year as a whole: machinery and equipment (8.3% to \$89.2 billion, accounting for 22.2% of total exports); automotive products (9.4% to \$87.9 billion, accounting for 21.9% of total exports); forestry products (7.2%); industrial goods and materials (5.2%); agriculture and fishing products (5.2%); and consumer goods (3.1%).

Trade with the United States declined in 2003. Exports fell \$17.7 billion (or 5.1%) to \$328 billion, while imports declined by \$15.2 billion (or 7%) to \$203 billion. As a result, Canada's annual trade surplus with the United States fell by \$2.5 billion to \$124.5 billion. For the year, the United States accounted for 86% of Canadian merchandise exports and 61% of total merchandise imports. It should be pointed out, however, that these figures may be overstated due to transshipments. The U.S. economy is showing encouraging signs of a recovery, which should bode well for Canadian exports. Although fourth quarter GDP growth decelerated to 4.1% (annualized) from 8.2% the previous quarter, annual GDP expanded 3.1% in 2003 compared with 2.2% a year earlier.

Elsewhere, Canada reduced its trade deficit with the European Union by \$1.6 billion in 2003, as merchandise exports increased by 7.6% to \$18.8 billion and total imports fell by 0.6% to \$38.7 billion. Canada also reduced its merchandise trade deficit with Japan in 2003, as the \$1.6 billion decline in total imports exceeded the \$278 million drop in total exports. Finally, in 2003, merchandise imports from China were \$18.6 billion, which made it Canada's third largest supplier of goods imports to Canada, after the United States and the European Union.

In 2003, Canada recorded a deficit on its trade in services of \$11.5 billion, up \$3.2 billion from a year earlier. Services receipts declined by \$2 billion, or 3.4%, while services payments increased by \$1.2 billion, or 1.7%. Services exports to the United States and Japan declined by, respectively, \$1.8 billion and \$362 million, while receipts from the EU increased by \$225 million. The United States accounts for 59.2% of Canada's services receipts, with the EU contributing almost 17% and Japan a further 2.5%. These countries account for roughly the same shares of Canada's services imports.

The uncertainty and general weakness that characterized global markets in 2003 made its impact felt on the investment front: both outflows and inflows of foreign direct investment in 2003 were down substantially for the year—outflows by 33.6% and inflows by 74.5%. For 2003, FDI inflows into Canada totalled \$8.3 billion, down \$24.1 billion from the previous year's level while outflows of direct investment, at \$30 billion, were off by \$15.2 billion

from the levels recorded the previous year. Nearly half of the inflows came from U.S. investors while just over one-fifth of the outflows were to the United States.

The Canadian economy is poised for continued growth in 2004. First, the robust growth in the U.S. economy is expected to boost Canadian exports to the United States. Second, consumer and business demand remain positive in Canada. Third, employment growth is picking up again. In 2003, the Canadian economy added 334,200 new jobs. Finally, inflation is below the mid-point of the 1 to 3% target range set by the Bank of Canada. As a result, interest rates remain low. Private sector forecasters predict that Canada is likely to achieve economic growth of close to 3% this year. In short, this suggests that the fundamentals of the Canadian economy are strong, which will help Canadians to continue to perform well in international markets such as the United States.

For a complete picture of Canada's trade performance, see the "Annual Report on Canada's State of Trade", prepared by the Economic and Trade Analysis Division of the Department of Foreign Affairs and International Trade. The edition covering Canada's trade performance in 2003 was released March 30, 2004 and is available on-line at www.eet/trade/state-of-trade-en.asp

Focus on the Engineering Services Sector

The focus on the engineering services sector is the latest in a series of sectoral focuses. Previous editions looked at the minerals and metals sector, financial services and biotechnology.

Overview

The engineering consulting services industry is a fast-paced and dynamic sector of the global economy. The industry provides independent advice and a wide range of services typically associated with the development and implementation of capital projects. Specialized fields within the sector include mechanical, civil, electrical, chemical and computer engineering.

Consulting engineers are active in a variety of areas, including all types of public works, industrial installations, large private and public buildings, and transportation systems. For example, they support the development of public infrastructure through their involvement in power generation and transmission projects as well as in the provision of municipal services such as roads, water supply and wastewater treatment. Their contribution to industry includes support for resource extraction, refining and manufacturing through services to the pulp and paper, mining, and oil and gas sectors. Other areas of business include telecommunications infrastructure, the design of marine works and environmental projects.

Canada's consulting engineering industry contributes to the nation's wealth through innovative design and development practices in both private and public infrastructure. Moreover, its traditional strengths in the areas of resource extraction, energy, telecommunications, transportation and infrastructure engineering have positioned Canada as a leading supplier of engineering services at the international level.

The Canadian industry consists of more than 6,000 establishments engaged in a variety of activities. More than 54,000 Canadians owe their livelihood directly to the business of consulting engineering. The majority of Canadian firms are small, privately held and domestically owned. Numbers gathered from a recent survey of the Association of Consulting Engineers of Canada (ACEC) membership indicate that more than 74% of Canadian firms employ fewer than 50 people. However, a few companies, such as SNC-Lavalin and Stantec Consulting, employ thousands of people and compete directly with the top engineering firms in the world.

The engineering services industry has been one of Canada's strongest and most internationally competitive service industries. In 2002, the gross revenues of

consulting engineering firms contributed in excess of \$5.8 billion to the Canadian economy. Overall, the industry contributes 0.5% of Canada's gross domestic product.

Diversified Exports

The Canadian industry ranks third in the world in export revenues, with firms providing engineering services in more than 125 foreign markets. According to the ACEC, in 2001, approximately one third of its annual revenues were derived from exports.

Recipient markets for Canadian consulting engineering exports are evenly distributed throughout the world. Unlike many other sectors of the Canadian economy, engineering services do not depend on the United States as a primary source of export sales. In fact, only 30% of Canada's engineering services reach the United States as a final destination. Markets in Asia and Africa attract roughly 50% of Canadian exports, while Europe and South America make up the remaining sources.

Although Canadian companies offer a diverse range of expert services, foreign billings have historically been based in five main areas of activity: water and sewer, waste treatment, manufacturing, hazardous waste management and building construction.

Market Access Issues

Under the General Agreement on Trade in Services, improving conditions for the treatment of engineering services is an important area for renewed negotiating efforts. Canada will focus its efforts on a number of interrelated fronts that are important for the further expansion and liberalization of trade in engineering services.

- National treatment and market access restrictions: Canada supports improvements in the quantity and quality of commitments relating to:
 - the cross-border supply of engineering services,
 - rules governing the consumption abroad of exported engineering services, and
 - rules governing the establishment, in the host country, of a commercial presence for the engineering services provider.

Canada is pursuing the elimination of overt discriminatory requirements in the form of nationality

and citizenship requirements, as well as alternatives to permanent residency and residency to the extent that other less-restrictive means are available (i.e., collaboration with local partners, bonding requirements to ensure recourse and agreements on cross-border disciplinary actions). Canada has made a number of improvements with regard to national treatment, including the development of temporary licensing regimes to facilitate access for foreign engineering services professionals.

- Facilitating the entry of engineering service providers: Improvements can be made in the coverage for the temporary entry and stay of engineering professionals.
- Mutual recognition of credentials: Canada will examine ways to encourage the development of mutual recognition agreements between regulators and to ensure the participation of all World Trade Organization (WTO) members as a way to facilitate and improve access to foreign markets.
- Tools of the trade: Canada is examining the need for rules to allow for the temporary admission of professional equipment necessary to carry out engineering services in a foreign market.

Specific Markets of Interest

The Government of Canada's objective is to maximize the opportunities for Canadian engineering services companies in our WTO partner countries. In particular, interest has been expressed in the following priority markets: the United States, Japan, the European Union, China, Russia, the United Arab Emirates, other Middle Eastern countries, Latin America and members of the Association of Southeast Asian Nations.

Currently, the International Affairs Committee of the Canadian Council of Professional Engineers is negotiating, or has plans to negotiate, mutual recognition agreements with Australia, China, Chile, Hong Kong and the United Kingdom. Negotiations with the United States and Mexico are ongoing.

The ACEC believes Canadian engineers need legislative, regulatory and contractual frameworks that protect and promote their business and professional interests. It is also looking to achieve a stronger regulatory, professional and contractual environment

for the conduct of business in Latin America for domestic and international firms, thereby improving the competitiveness of Canadian companies.

Focus on the Territories

The focus on the Territories is the latest in a series and completes our initial review of the various regions of Canada. The 2003 edition looked at British Columbia; the 2002 edition examined Ontario and Quebec; the 2001 edition considered Alberta, Saskatchewan and Manitoba; and the 2000 edition highlighted Atlantic Canada.

NUNAVUT

Overview

April 1, 2004 marked the fifth anniversary of the establishment of Nunavut as a territory. Nunavut covers one fifth of Canada's landmass (more than two million square kilometres), but is populated by only approximately 27,000 people, 85% of whom are Inuit. This combination of attributes means that Nunavut faces both enormous challenges and incredible opportunity. To address both, the Government of Nunavut has developed a five-year plan designed to advance its priorities for the territory: Healthy Communities, Simplicity and Unity, Self-reliance and Continuing Learning. The plan outlines the specific objectives for the next five years, as well as a vision of Nunavut in the year 2020, and the principles that will guide it as it attempts to achieve these objectives.

The Nunavut economy is typically characterized as "mixed", with many Inuit engaging in traditional activities, such as hunting, fishing and trapping, and the production of some clothing, in addition to

participating in the wage-based economy. However, the size and often isolated nature of many regions of the territory, combined with the small population and the varying wage-based economy participation rate, have made it difficult to measure economic activity.

About two-thirds of the estimated \$1 billion in annual economic activity in the territory is generated by government spending. But the economy is in transition. The Nunavut government is progressing with plans to stimulate long-term, sustainable growth and development. These plans, combined with a positive business climate, including a 4% corporate tax rate, and potential increases in royalty revenue pursuant to the devolution of powers, should continue to reduce dependence on the federal government.

Nunavut is believed to be the richest area in Canada in terms of natural resource deposits. Despite the recent closings of operating mines that will cause the economy to contract this year, the territory remains optimistic regarding the long-term prospects for this key sector. This optimism is based on excellent geology, positive indications of gold, diamond and base metal deposits, and increasing exploration activity, which approached \$120 million in 2003 and was second in Canada to the Northwest Territories in terms of value. In preparation for the eventual opening of diamond mines, the government is working to ensure that value added activities, such as cutting and polishing, remain in the territory. It is also working with key partners on new ways to exploit the North's rich diamond deposits. This is seen as a way to increase the prosperity of the region by capitalizing on the rich artisan tradition of the Inuit, the local diamond resources and the growing tourism sector.

The harvesting of game meats is another important part of the local economy that brings together the traditional Inuit way of life with a careful science-based approach to conservation that is needed for sustainable development. Musk-ox and caribou are the most important commercial hunts. Small, local seal hunts continue to play an important role in maintaining Inuit traditions and close ties to the land. Recently there has been a resurgence of demand in some European markets for the by-products of this hunt; in 2002, for example, buyers from Denmark purchased 90% of the estimated 10 thousand seal-skins that went to auction. Commercial fishing of

arctic char, turbot and shrimp contributes approximately \$9 million annually to the Nunavut economy. A turbot processing plant is located in Pangnirtung which processes several hundred tonnes of turbot per year.

Tourism is a growing sector of the Nunavut economy, employing more than 500 people. Cultural industries, such as arts and crafts, also play a part in the regional economy and create synergies with the tourism sector.

International Trade

Exports of game meats, caribou and musk-ox, to the United States exceeded \$840,000 in 2003, despite the challenges posed by geography and a two-day trip to the U.S. border. An additional \$210,000 was exported to Europe after being prepared in EU certified facilities. Nunavut fisheries exported more than \$1.5 million worth of product to the United States in 2003.

Nunavut has signed an agreement with the federal government that will allow it to increase its international business development activity. Under this agreement Nunavut can access services of the Department of Foreign Affairs and International Trade to support its efforts to develop exports and attract investment. The territory has also undertaken a major initiative to supply broadband communications to each community in an attempt to remove disadvantages stemming from the long distance to markets.

Market Access Issues

Exports of *shrimp* from Nunavut to the EU, which face a relatively high MFN tariff of 20%, have been negatively impacted by competition from Greenland, a key competitor with duty-free access to the market. Because of the small size of this industry in Nunavut, changes to certification and packaging requirements enacted by the European Union have also placed Nunavut's exports at a disadvantage.

The *Marine Mammal Protection Act* (MMPA), which bans imports of seal products into the United States, severely restricts exports of one of Nunavut's key products (for more information on the MMPA see the U.S. section in Chapter 4).

Exports of *caribou* to the EU, which were exempted from BSE-related trade restrictions due to the geographical isolation of the herds and distinctive product status, face a tariff of up to 18%, although the precise rate seems to depend on the point of entry. This product competes with Northern European reindeer, which enters the European Union duty-free. In addition, changing European certification and packaging requirements increase costs, further disadvantaging Nunavut's exports.

Exporting to the U.S. market is made more difficult by unclear customs rules relating to how game meat is classified, complicated regulations and food handling requirements and comprehensive record keeping requirements.

THE NORTHWEST TERRITORIES

Overview

The Northwest Territories (NWT) comprises almost 1.2 million square kilometres, an area approximately the size of Alberta and Saskatchewan combined. A small population of approximately 41,000, 50% of which is aboriginal, call the territory home. The territory has a rich and diversified resource base, which provides the foundation for a thriving economy.

The Government of the Northwest Territories has built on this base by promoting diversified resource development and value added processing. The Government of the Northwest Territories is focused on the continued development of the region's non-renewable resources, local businesses, tourism and its population's skills and abilities, with a view to realizing the full potential of the NWT's resource endowments so as to ensure that the territory is a prosperous and secure place to live in the years to come.

The NWT's gross domestic product (GDP) increased by approximately 9% in 2003, due in large part to the start of production at the Diavik diamond mine. In 2002, the Northwest Territories had the highest per capita GDP in Canada at approximately \$75,000 per person. The NWT also had the highest average income in Canada at around \$51,000 per taxable return (2000 tax year) and, at 71%, the highest employment participation rate in Canada at the end of 2003.

After the large increase in GDP in 2003, the economy is forecast to continue to grow rapidly over the next few years: 7.4% in 2004, 10.4% in 2005 and 14.4% in 2006. These projections are based on the Diavik mine entering full production, significant investment in the Snap Lake diamond mine and the start of pipeline and field development work on the Mackenzie Valley pipeline. The Snap Lake mine construction is anticipated to begin in 2005 with full production occurring in 2007. The construction of the pipeline is expected to commence in 2006, with the flow of gas beginning in 2009. The anticipated capital cost of the project is projected to be between \$4 and \$5 billion. Development of the gas fields to support the pipeline will have an aggregate capital cost comparatively similar to the capital cost of the pipeline. In addition, construction costs related to the development of highways are expected to exceed \$300 million. Preliminary studies show that the NWT has the potential to generate more hydropower than James Bay or Churchill Falls using modern run-of-the-river technology that will limit environmental impacts.

Mining is the Northwest Territories' largest industry with diamond production from the Ekati and Diavik mines reaching \$1 billion in 2003. This represents 12% of total global diamond production, which places the Northwest Territories ahead of South Africa (11%) in production by value. A third diamond mine, the De Beers' Snap Lake project, is in the regulatory review phase. A secondary industry has evolved in diamond sorting and manufacturing. In April 1998, BHP Billiton agreed to build a sorting and valuation facility in Yellowknife. BHP Billiton then agreed to sell rough diamonds, at world prices, to three manufacturers in the territory as part of an understanding between the territorial government and the company to promote and support value-added activity in the Northwest Territories. The three facilities will employ approximately 90 cutters at full capacity.

Historically, gold has been the mainstay of the territory's mining industry, playing such an important role that the gold billets on the territorial flag represent this natural resource along with the bright prospects for the future of the territory. In 2002, gold shipments were approximately \$52 million.

The future of oil and gas in the Northwest Territories appears bright with demand for energy products in North America expected to continue to increase. The Western Canada Sedimentary Basin, which covers a large portion of Alberta, extends into the Northwest Territories. This is one of the richest deposits of oil and natural gas in the world. In addition, the Mackenzie Delta/Beaufort Sea area has 9 trillion cubic feet of proven reserves of natural gas and a potential for up to 64 trillion cubic feet. Based on a conservatively estimated price of US\$4 per mcf, total project revenues could reach \$50 billion.

The construction industry has had to develop innovative solutions for “arctic” conditions. As such, Northwest Territory companies have exported their expertise to Russia and other polar regions. Overall, the construction industry contributed \$412 million to the territory’s gross domestic product in 2002, making it the second largest industry in the NWT.

The Northwest Territories has many tourism attractions, including four national parks, and the NWT industry is beginning to tap into the rapidly growing global market for “adventure travel” to remote and pristine wilderness areas, particularly those with aboriginal cultures. The tourism season extends over most of the year.

Other sectors of the NWT economy include a small but growing manufacturing industry, and relatively tiny commercial fishing, muskox harvesting and agricultural industries. Resource harvesting and the fur industry play a key role in the traditional economy of many small remote communities.

International Trade

The mining and resource extraction industries continue to account for almost all of the territory’s exports. Major exports from the NWT include diamonds, oil, natural gas and gold. In 2002, \$801 million worth of diamonds were exported from the NWT. Oil exports from the NWT for the same period were valued at \$289 million, while natural gas shipments were \$108 million. Exports of gold, once the backbone of the resource economy, were \$52 million.

The NWT will continue its efforts to capture more of the processing and value-added activity related to the mining and resource-extraction industries, with a view to diversifying its economy and its export base.

Market Access Issues

The products of key export interest to the Northwest Territories currently face few market access barriers as they are generally imported as raw materials for further production.

THE YUKON

Overview

The Yukon is the smallest territory in terms of land mass, encompassing 480 thousand square kilometres or about 5% of Canada’s total land area. The territory has a small population of approximately 30,000 people, 25% of whom are aboriginal; since 1997, the Yukon’s population has declined by about 10%.

The Yukon has a small economy with a GDP of approximately \$1 billion per annum. As a result of recent declines in mining activity, the Yukon’s economic growth has been largely stagnant in real terms since 1997. The territory’s GDP growth rate has underperformed relative to the national growth rate in five of the last six years. The Yukon’s economy expanded 5.1% in real terms between 1997 and 2002, compared to Canada’s 21.7%. Total employment in the Yukon dropped 3.6% over the 1997–2002 period.

Mining and minerals continue to be important to the Yukon economy, contributing \$79 million in 2002. In 2002, gold accounted for 89% of the value of the Yukon’s mineral production (excluding oil wells). However, declining activity in the resource sectors has led to increasing Yukon economic dependence on government spending during the 1997–2002 period. The public sector’s contribution to GDP has risen to over 37%, more than double the national rate. Government now directly employs over one-third of the workforce.

The Government of the Yukon, having recognized that the territorial economy needed to move in a new direction if the territory was to achieve its potential, released on January 30, 2004, a policy paper entitled: “New Direction: Building a Sustainable and Competitive Yukon Economy” (www.economic.development.gov.yk.ca/general/ecdd_direction.html). The government’s goal is to develop a sustainable, competitive Yukon economy that is capable of sound

performance over the long term. To achieve this goal, the government will focus on building an economy that can successfully compete at regional, national and international levels. The paper outlines some of the strategic initiatives that the Department of Economic Development will pursue with a view to building a sustainable and competitive economy. These include:

- putting its regulatory house in order and developing a positive business climate;
- attracting outside investment;
- developing its capacity to compete in world markets and export goods and services; and
- aggressively marketing territorial products and services.

In 2007, the Yukon will host the Canada Winter Games in Whitehorse. The event is expected to contribute \$20 million to Yukon's GDP in 2007 and to result in up to 500 person years of employment. Construction of facilities and planning for the Games will provide some boost to the economy in the next three years leading up to the Games.

Tourism has been a growing sector in the Yukon economy and contributes a larger portion of GDP than in any other jurisdiction in Canada. Statistics Canada reports that tourism accounted for 4.4% of the Yukon GDP in 1998 and also accounted for 6.8% of employment. A large percentage of the Yukon's tourism businesses are small, sole proprietorships and are often seasonal operations. This diversity provides challenges to quantifying the size of the industry and measuring its full economic impact.

International Trade

With economic growth having been relatively flat in recent years, territorial GDP figures show that total exports of goods and services have declined by 42% between 1997 and 2002.

Tourism is the Yukon's largest export, with more than 80% of visitors arriving between June and September. In 2002, an estimated total of 313,290 visitors visited the Yukon, an increase of 11% over 2001. Current estimates suggest that \$164 million in revenue is directly related to non-resident tourism, up 22% or \$29 million from the 1998 figure of \$135 million.

International visitors are believed to account for more than 50% of tourism related spending in the territory.

Historically, the Yukon's largest merchandise exports were lead and zinc concentrate. These exports accounted for 99% of the value of the Yukon's international exports of goods each year. However, with the closing of the mine in 1998, the value of these exports plummeted. In 2002, the value of exports of these products was \$4 million, down 98% in comparison with the 1996 figure of \$185 million.

The largest international goods exports in 2002 were wooden trusses, pre-fabricated log homes and vinyl framed windows.

The Yukon's largest trading partner is the United States, which accounts for more than 90% of the territory's international exports. Within the United States, the largest destination for Yukon exports is the State of Alaska which imported \$2.7 million worth of Yukon goods in 2002.

Market Access Issues

The products of key export interest to the Yukon currently face few market access barriers. However, given the significance of trade with the United States and the importance of maintaining access to the U.S. market, effective management of trade relations with the United States is required to ensure orderly two-way trade between Canada and the United States and to minimize the potential for disputes. The Governments of the Yukon and Alaska are considering the scope for enhancing cross-border trade and tourism between the two jurisdictions.

NORTHERN TERRITORIES SUCCESS STORIES

Pangnirtung Fisheries Ltd.

www.ndcorp.nu.ca/meat_fish/pangnirtung.htm

Pangnirtung Fisheries has become a major exporter and source of employment in the Pangnirtung (Baffin) area. The company owns a fish processing plant that processes arctic char and turbot (also called Greenland Halibut). Pangnirtung has also established strategic arrangements with European fishing vessels

in order to process a portion of the fish harvested in Nunavut waters. In a typical year this fishery will export in excess of \$1.2 million to the United States.

Kivalliq Arctic Foods Ltd.

www.ndcorp.nu.ca/meat_fish/kivalliq.htm

Kivalliq Arctic Foods Ltd. is a food processing company that specialises in supplying caribou meat, along with arctic char. The company's caribou meat is harvested from animals that have never been confined or herded. This natural organic quality has resonated with customers, and exports to European markets have risen since the company's processing facility was certified by the EU in 2001. Last year the company processed over 113,000 kilograms of caribou meat. Kivalliq Arctic Foods has prospered and grown through exports and in 2002 was awarded the International Marketing Profile Award from the First People's Business Association.

Unaalik Aviation Inc.

www.inuit.pail.ca/unaalik-aviation.htm

Unaalik Aviation began flying in the spring of 2002 with a ten-year agreement to operate regular air service between Iqaluit and Kimmirut, Nunavut. The company also operates charters to Greenland and the Antarctic. The charters allow the company to utilize their Twin Otters aircraft, which are ideally suited for this difficult terrain, during the slow winter season in Canada, while serving a growth niche in adventure tourism. Having flown to the South Pole the young company is working on expanding operations to include service to the North Pole through Longyearbyen, Norway.

BHP Billiton Diamonds Inc

<http://ekati.bhpbilliton.com>

Production at the Ekati Diamond Mine™, operated by BHP Billiton, began in October 1998. The project will mine eight kimberlite pipes and will have a 20 year mine life. As of January 2003, the project had recovered 14.05 million carats. Many large diamonds have been recovered, including a 182 carat boart stone. Employment at the mine currently exceeds 750 people. Northerners comprise 78% of all employees and 38% of northern employees are aboriginal. Production is estimated at four to

five million carats annually, with an average value of over \$140 per carat; annual sales are around \$700 million. This mine is expected to produce roughly 4% of the world's diamonds by volume and 6% by value.

Diavik Diamond Mine

www.diavik.ca

Construction of the \$1.3 billion Diavik Diamond Mine was completed in early 2003, and the first diamonds mined were shipped to the joint venture partners in late January. At peak production, the Diavik Mine will produce over six million carats of diamonds annually. The mine life is expected to be 20 years. Production will come from four ore bodies, called kimberlite pipes, discovered underwater just offshore of a 20 sq km island located in Lac de Gras, approximately 300 km northeast of Yellowknife, NWT. In early 2002, Diavik reserves stood at 27.1 million tonnes containing an average estimated reserve grade of 3.9 carats/tonne (diluted). The project has a total reserve of approximately 107 million carats with an average value of approximately \$87 per carat (2000 valuation).

Arctic Wild Harvest

www.articharvest.com

An excellent example of E-commerce, Arctic Wild Harvest substantiates a small business's ability to compete on a global level regardless of location. Specializing in food products unique to the north, including such gourmet and natural products as caribou jerky, smoked arctic char, dried wild mushrooms, candied wildflowers, herbal teas, Musk-ox pates—these examples offer only a glimpse of the products available. Product supplies come from all parts of the arctic including the Yukon, the Northwest Territories, Nunavut and Labrador but are handcrafted or manufactured locally before being shipped to their global destinations.

Air North

www.flyairnorth.com

Air North provides air access to and from the Yukon for both local travellers and the Yukon's growing tourism sector. Since the company was founded in 1977, Air North's growth has been steady, calculated

and responsive to the needs of its clients. Beginning as a charter operator serving outfitters and mining camps, Air North expanded through the 1980's to become a growing regional carrier servicing Yukon communities as well as destinations in Alaska. The company continues to grow with Boeing 737 service to major gateways in southern Canada including Vancouver, Edmonton and Calgary. This growth was cultivated through a partnership with the Vuntut Gwitchin First Nation of Old Crow. In 2002, the Vuntut Development Corporation's position in Air North grew to 48.8% which allowed the airline to expand into a regional jet carrier. Yukon's First Nations are an emerging economic force, and Air North is proud to be a showcase for this kind of partnership. That year the company also took part in a Team Canada mission to Germany and Russia, looking internationally to further business relationships with the two countries and to create opportunities for Air North.

CITIZEN ENGAGEMENT AND OUTREACH ON TRADE POLICY

Openness and transparency are key to an informed dialogue between Canadians and their government. The Department of Foreign Affairs and International Trade 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 policy agenda.

Parliamentarians are an integral part of these important consultations. By encouraging public awareness and understanding of international trade, as well as citizen participation in public consultations, parliamentarians play a critical role in the development of trade strategies and policies that reflect the priorities and interests of Canadians. The work of parliamentary committees serves as a key instrument in helping parliamentarians increase their knowledge and understanding of Canada's trade strategy, as well as contribute to the development and refinement of this strategy. Government responses to many of the reports, coupled with testimonies and briefings from ministers and senior government officials during

committee hearings, provide another opportunity for the government to keep citizens and parliamentarians fully informed about the strategic orientation and policy direction of Canada's trade agenda.

The Government of Canada uses a variety of mechanisms to maintain a close relationship with the provinces and territories in the area of international trade policy. Government officials meet quarterly, at the Federal/Provincial/Territorial Committee on Trade (C-Trade) meetings, to review the overall trade agenda and emerging trade policy issues, as well as to consult on the formulation of Canada's negotiating positions and strategy. In addition to these regular meetings, the International Trade minister and the deputy minister meet roughly once a year with provincial and territorial counterparts to develop further the cooperative relationship that exists with the provinces and territories in trade and investment policy, to update them on recent trade developments and to discuss trade policy directions, priorities and strategies. With the endorsement of the provinces and territories, the Department has established a joint working group to address the concerns of municipal and community-based interests regarding international trade. The sectoral advisory groups on international trade (SAGITs) are another mechanism that offers sector-specific advice on trade policy issues in an open exchange of ideas and information.

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

- In February 2003, the Free Trade Area of the Americas (FTAA) multi-stakeholder session focused on four issues: investment, services, smaller economies and development, as well as the FTAA and the Summit of the Americas process.
- In May 2003, the multi-stakeholder consultation session reviewed the operation and implementation of Chapter 11 of the North American Free Trade Agreement (NAFTA). This consultation was held

on behalf of the NAFTA (Chapter 11) Investment Experts Group, which is made up of officials of the Canadian, American and Mexican governments.

- In July 2003, a multi-stakeholder session was held on the margins of the Montreal informal mini-ministerial meeting hosted by International Trade Minister Pierre Pettigrew. The session allowed civil society representatives to exchange views, *inter alia*, with Minister Pettigrew and with the WTO's Director General, Dr. Supachai Panitchpakdi.
- In September 2003, the WTO Ministerial Conference held in Cancun, Mexico, allowed the participation of some 250 Canadian individuals, including ministers, senior officials, other governmental representatives, parliamentarians, and representatives of non-governmental organizations, business associations and unions, etc.
- In October 2003, the NAFTA multi-stakeholder roundtable discussion provided an opportunity for 51 representatives from the business community, non-governmental organizations, academia and associations to have a thorough exchange on NAFTA, its impacts after 10 years and possible future developments. Minister Pettigrew, Deputy U.S. Trade Representative Peter Allgeier and Mexico's Under-Secretary for International Trade, Angel Villalobos joined the roundtable at the end of the day to receive recommendations from participants regarding the development of further trilateral work on NAFTA.
- In November 2003, Canada's delegation to the FTAA Miami Ministerial Meeting included parliamentarians and provincial representatives. Interested Canadians were briefed on site and by teleconference call. In addition, Canada's International Trade Minister met with parliamentarians and with business and civil society representatives from the hemisphere to exchange views on the FTAA negotiations.

In addition, the government encourages Canadians to participate in annual trade-related international conferences and consultative initiatives, including the World Trade Organization public symposium, the Organization for Economic Cooperation and Development (OECD) forum, the OECD Trade Committee and Joint Working Party on Trade and Environment consultations, and the Free Trade Area of the Americas thematic meetings.

Furthermore, the government actively participates in national, regional and international initiatives that advance understanding of how trade affects women and men differently, how to address these differences, and how to develop approaches to support the advancement of gender equality. Canada supported and participated in the first-ever session on gender and trade at a WTO symposium held in June 2003 and in the Gender Equality, Trade and Development session held in conjunction with the WTO Ministerial Conference in Cancun in September 2003. These two events successfully drew the attention of the WTO and the multilateral trading system to the significant contribution that women make in international trade and highlighted the differential impacts of trade liberalization on women and men.

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

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

We particularly welcome direct input from Canadian exporters and investors describing barriers they have encountered in foreign markets. Individual companies, industry associations and other interested organizations are encouraged to contact the Department of Foreign Affairs and International Trade with specific information on tariff or non-tariff barriers and other business irritants. Business people are invited to report any problems they are experiencing by communicating in strictest confidence to:

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

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

MARKET ACCESS AND INTERNATIONAL BUSINESS DEVELOPMENT

Both the federal and provincial governments manage programs that encourage business to expand beyond Canada's borders. Within the federal government, 20 departments and agencies have merged their international business development activities under the banner of Team Canada Inc. The members of Team Canada Inc cooperate in providing international business intelligence, market access information and marketing advice to Canadian business through a single window, via the Internet (www.exportsource.ca) or via telephone at 1 888 811-1119.

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

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

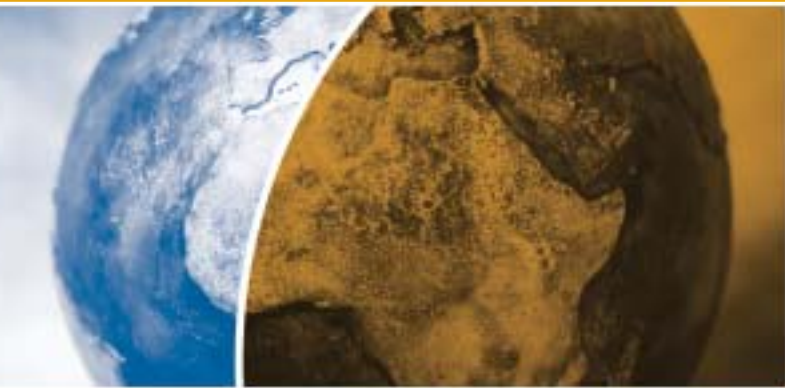
The International Business Development Branch of the Department of Foreign Affairs and International Trade is the domestic side of the Trade Commissioner Service. The branch publishes general market information on almost every country in the world, specialized reports on industrial sectors in most foreign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

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

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

The members of Team Canada Inc are:

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



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

CANADA AND THE WORLD TRADE ORGANIZATION

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

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

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

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

In November 2001, WTO trade ministers launched a new round of multilateral trade negotiations, known as the Doha Development Agenda, on a broad range of issues. The agenda included the seven negotiating areas of agricultural trade reform; market access for non-agricultural goods; services; rules for subsidy, anti-dumping and countervailing duty actions; a multilateral registry for wines and spirits; dispute settlement; and certain aspects of trade and the environment. Ministers agreed to conclude the negotiations by January 1, 2005.

Agriculture, market access and development lie at the centre of and are Canada's key objectives for these negotiations. We seek fundamental agricultural trade reform: the elimination of all export subsidies, substantial reductions in trade-distorting domestic support and improved market access for all agricultural and food products. Canada also seeks improved market access in non-agricultural goods and services, as well as greater clarity and improvement in the rules on trade remedy provisions and subsidy disciplines. An ambitious outcome would help us attain these objectives and enable developing countries to better integrate into the global economy and realize the benefits of increased economic growth.

In the other negotiating areas, Canada seeks to conclude negotiations on a multilateral system for the notification and registration of geographical indications that is voluntary, facilitative, simple, cheap to implement and limited to wines and spirits. Such a system could be relatively easily implemented by any

WTO member that wished to do so. On dispute settlement, Canada supports improvements with respect to the transparency of dispute settlement proceedings, the protection of confidential information and the panel roster system. Canada also seeks agreement on issues such as sequencing of compliance proceedings, the remand of issues from the Appellate Body to panels, and enhanced rights for members who are third parties to disputes.

On trade and the environment, Canada supports early action to reach agreement on the definition of environmental goods, so that tariff elimination for these goods can be covered in the non-agricultural market access negotiations. Canada supports an approach under which a core group of multilateral environmental agreement secretariats and other relevant international organizations would observe these negotiations rather than continuing with the current case-by-case invitation approach. Canada also supports discussions on voluntary eco-labelling in the WTO Committee on Trade and Environment.

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

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

The Cancun Ministerial and Status of Negotiations

In September 2003, the 146 members of the WTO met in Cancun for a mid-term review of the Doha Development Agenda and to take decisions needed to move the negotiations forward.

Members endorsed the August agreement on trade-related aspects of intellectual property rights and public health that would allow low-cost generic versions of brand-name drugs to be shipped to poor countries to deal with public health issues. Members also welcomed the accession of two new members, Cambodia and Nepal, which will be the first least-developed countries to join the WTO since 1995.

While progress was made in some areas under negotiation, the atmosphere of the Conference did not lend itself to consensus building. The disagreement in Cancun can best be explained by the significant gaps in the level of ambition pursued by different members. Other factors that contributed to the lack of agreement on directions for further progress in the Round included differences over agricultural trade reform; differences over the development of new rules for the "Singapore Issues" (investment, competition, trade facilitation and transparency in government procurement); a weak response to the cotton initiative; and uncertainty regarding the ambition and flexibility that would be provided in the modalities for the non-agricultural market access negotiations.

Although members failed to agree in Cancun on how to proceed on the Singapore Issues, Canada sees considerable value in the development of multi-lateral rules on all four issues (see separate sections in this chapter).

WTO members are working in Geneva to restart the negotiating process. The challenge is to capture the progress that members saw at Cancun and to rebuild the process so negotiations can move toward an ambitious outcome in line with the Doha mandate.

On November 6, 2003, the Government of Canada tabled legislation that will allow lower-cost pharmaceutical products to be manufactured and exported in response to public health problems afflicting many developing and least-developed countries. Canada will be the first WTO member to implement the WTO decision on access to medicines domestically.

Conclusion

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

Canada will continue its efforts to advance the development of a predictable and stable international trading system, including through regional and bilateral trade initiatives that augment multilateral efforts in the WTO. The WTO will continue to be a cornerstone of Canadian trade policy and the preferred vehicle for trade liberalization. Canada seeks the same commitment from other WTO members. Only through multilateral trade liberalization can we ensure that no one gets left behind.

Improving Access for Trade in Goods

NON-AGRICULTURAL MARKET ACCESS

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

In the second year of NAMA negotiations, Canada continued to seek agreement to reduce and bind applied tariffs that were not yet bound, reduce high bound rates and rebind them at lower rates, and expand the scope of duty-free trade. We also continued to advocate eliminating low tariffs and maximizing the use of *ad valorem* (percentage) rates.

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

In addition to formula reductions, Canada has been a strong proponent of sectoral agreements, and it has proposed new tariff-elimination agreements for environmental goods, chemicals, forest products, fish and fish products, fertilizers, energy-related equipment and non-ferrous metals.

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

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

The May 31, 2003, deadline for reaching agreement on modalities for non-agricultural market access was not met. This was largely due to differing levels of ambition regarding what members want to achieve and what kinds of flexibilities should be provided to developing countries. These same divergences were evident at the fifth WTO Ministerial Conference in

Cancun. While members failed to reach agreement in the NAMA and other negotiating groups, Canada and many other members remain committed to advancing trade liberalization in this area and achieving an end result in the Doha Round that is beneficial for all.

Canada conducted a public consultation with respect to non-agricultural market access in the summer and early fall of 2002. Since that time, various groups and individual stakeholders have provided their views. Provincial and territorial governments are consulted on a regular basis. As the negotiations proceed, input from the provinces, industry, non-governmental organizations and the general public will continue to be a valued element in the development of Canada's negotiating positions.

AGRICULTURE

Canadian farmers and processors operate in a global marketplace, exporting \$24.3 billion and importing \$20.6 billion worth of agri-food products in 2003. Canada is the world's third largest exporter of agri-food products, after the United States and the European Union, and the fifth largest importer. Given Canada's share of global agri-food trade, Canadians have a significant interest in ensuring that the international trade rules governing agriculture are fair. The Government of Canada strives to ensure that Canadian producers and processors can obtain access to foreign markets and that they are not disadvantaged by high subsidy levels offered by other countries. For that reason, the current round of WTO agriculture negotiations is very important to Canada's agri-food sector.

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

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

Canada's position is that decisions about the production and marketing of Canadian products will continue to be made in Canada. For Canada's negotiating positions, visit the agri-food trade policy Web site of Agriculture and Agri-Food Canada (www.agr.gc.ca/itpd-dpci/indexe.html).

During the fourth WTO Ministerial Conference in Doha in November 2001, WTO members agreed to launch a new broad-based round of multilateral trade negotiations, incorporating the ongoing agriculture and services negotiations that began in 2000. The Doha Ministerial Declaration included an ambitious mandate and timetable for the agriculture negotiations. One element of the Doha timetable was the establishment of agriculture modalities by March 31, 2003. Modalities in this context refer to the commitments that WTO members will undertake to reduce trade-distorting domestic support and export subsidies and to make improvements in market access.

WTO members were not able to agree on agriculture modalities by the March 31 deadline, given the large differences that remained on many of the central issues in the negotiations (e.g., the approach to tariff reductions, the level of ambition on reducing trade-distorting domestic support). During the spring and summer of 2003, WTO members worked at both the ministerial and official levels in an attempt to narrow those differences in preparation for the fifth WTO Ministerial Conference, which was held in Cancun from September 10 to 14, 2003.

In late July 2003, it was clear that it would not be possible to develop draft modalities in time for the Cancun Ministerial. During August 2003, a number of WTO members, including the United States and the European Union jointly, and a group of 20 developing countries that included Brazil, China and India proposed "framework" texts to guide the subsequent development of modalities.

On the basis of these and other proposals, the Chair of the WTO General Council, Carlos Pérez del Castillo, developed a draft agriculture framework to be used as the basis for discussion by ministers in Cancun. This framework set out a structure of approaches and concepts but did not include specific numbers such as percentages to be applied for reductions of tariffs and domestic support. Ambassador del Castillo's intent was that ministers would discuss and

agree on a framework text in Cancun, which would then guide the work of the agriculture negotiators in developing modalities in the months following Cancun.

During the Cancun Ministerial, WTO members discussed the elements of a draft agriculture framework text, and George Yeo, Trade Minister for Singapore and facilitator of the agriculture discussions at Cancun, developed a new draft framework. This was included in the overall draft Ministerial Declaration tabled by the Chairman of the Ministerial Conference, Mexican Foreign Relations Minister Ernesto Derbez, on September 13, 2003.

However, the Cancun Ministerial ended before ministers had the opportunity to engage in detailed discussions of the consolidated Derbez draft text. Nevertheless, ministers agreed that the valuable work up to and at the Cancun Ministerial Conference would be brought forward into the next phase of the negotiations. They undertook that, in areas where they had reached a high level of convergence, they would maintain this convergence while working toward an overall acceptable result.

Ambassador del Castillo conducted informal consultations at the head-of-delegation level in Geneva from October to December on agriculture, non-agricultural market access, the Singapore Issues and cotton. While his consultations revealed no new flexibility, he identified key issues for continuing work in each of the four areas. Early 2004 was taken up with the selection of a slate of chairs for WTO regular and negotiating bodies, and the agriculture negotiating sessions resumed under the chairmanship of Tim Groser, New Zealand's Ambassador to the WTO.

The key agriculture issues dividing members remain similar to those at Cancun. Canada and most other members want the negotiations to result in a certain date for the elimination of all export subsidies on agricultural products. The approach to market access, and whether it should be the same for developed and developing countries, remains a critical issue. A key issue will be how to achieve an ambitious market access result while providing some flexibility in how to improve market access for sensitive products. Canada has suggested some ways forward in this regard. Finally, while it has been generally agreed that

those with the highest levels of distorting domestic support should reduce the most, this principle must apply to all forms of trade-distorting domestic support.

Canada remains well positioned to pursue the objectives it set out when the negotiations began. The Government of Canada will continue to consult a broad spectrum of Canadians and the provinces over the course of the agriculture negotiations. The government will also continue to inform Canadians on developments in the negotiations through the Web sites of the Department of Foreign Affairs and International Trade and Agriculture and Agri-Food Canada.

TECHNICAL BARRIERS TO TRADE

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

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

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

Under the WTO TBT Agreement, Canada will continue to press for the removal of unnecessary, ineffective or inappropriate regulations, standards and conformity assessment procedures that act as trade barriers in order to help maintain or enhance market access and lower costs to producers and exporters. Recently, for example, Canada has been raising concerns over other countries' proposals for unnecessary or unjustifiable barriers to products derived from biotechnology, as well as over mandatory requirements for non-product-related process and production method labelling. To assist the WTO Committee on Technical Barriers to Trade in addressing labelling issues, Canada has proposed a framework for informal discussions, which covers issues such as policy instruments for labelling, mandatory versus voluntary measures, harmonization and equivalency, and developing country considerations. The document can be found on the WTO Web site (www.wto.org) under its official document number G/TBT/W/174/Rev.1. Further to one of the suggestions in this document, a "Labelling Learning Event" was held by the TBT Committee on October 21 and 22, 2003. The event provided members with a better understanding of the preparation, adoption and application of labelling schemes in the context of the implementation of the TBT Agreement, as well as a better understanding of the impacts of such requirements on trade. Commonalities and differences among labelling schemes were discussed, but no formal conclusions were drawn.

Canada will also work to improve transparency; promote regulatory reform and good regulatory practice by WTO members; align or harmonize standards internationally with trading partners; and, if appropriate, negotiate mutual recognition agreements (MRAs) on conformity assessment. On this point, Canada has developed a policy approach to MRAs that assesses proposals on a case-by-case basis. It includes full consultation with federal and provincial regulatory and trade officials (in their areas of jurisdiction), as well as with stakeholders, including industry. This document is also available on the WTO Web site (www.wto.org) under the official document number G/TBT/W/167.

Canada is an active participant in the ongoing work programs of the TBT Committee and was a full participant in the Third Triennial Review of the

Implementation and Operation of the Agreement on Technical Barriers to Trade conducted in November 2003. Canada's submissions to the Triennial Review included documents on Canadian objectives for the Third Triennial Review, on Canada's approach to voluntary conformity assessment and on Canada's technical assistance and cooperation activities in the TBT field. These documents are also available on the WTO Web site under the following document numbers: G/TBT/W/196, 210 and 202.

Canada endorsed proposals by Committee members to address and strengthen approaches in areas such as transparency in the application of the Agreement; encouraged members to commit to conducting information exchanges on good regulatory practices and to developing a work program aimed at promoting better understanding of members' conformity assessment systems; and urged members to continue work on the provision of technical assistance to developing countries. The full report of the Third Triennial Review is available at the WTO Web site under the document number G/TBT/13.

SANITARY AND PHYTOSANITARY MEASURES

In 2003, the Sanitary and Phytosanitary Measures (SPS) Committee continued to focus on the implementation-related concerns identified by developing countries. In particular, the Committee continued to consider, as a priority, the implementation constraints facing developing countries, including the issue of special and differential (S&D) treatment and technical assistance. In addition, the Committee continued work to clarify how the obligations related to equivalence, regionalization and transparency would be put into practice.

The SPS Committee adopted in principle the Canadian proposal to make the provision of special and differential treatment more transparent, subject to the elaboration of procedures by the Secretariat. However, the Committee was unable to reach consensus on how to implement the proposal, and it is scheduled to reconsider this issue at its first meeting in 2004. In addition, the Committee developed a work plan to consider five S&D treatment proposals referred to it by the Chairman of the General Council. Members were to submit comments on

these proposals, including specific suggestions, in advance of the October meeting. Although the Committee has completed its work program, any further comments and suggestions on the five proposals will be considered at the first meeting in 2004.

The SPS Committee held informal discussions prior to each of the regular meetings to consider the issue of equivalence. The Committee worked with the Codex Alimentarius Commission, the World Organization for Animal Health (OIE, formerly the Office International des Epizooties) and the International Plant Protection Convention to ensure coherence in the development of guidance for judging the equivalence of sanitary and phytosanitary measures. It will monitor progress in implementing equivalence in the context of the SPS Agreement by maintaining the topic as a standing agenda item for the Committee's regular meetings.

In addition, the Committee held a special meeting on the operation of enquiry points on the margins of the October meeting (this special meeting was the first of its type in four years). The meeting, which brought together representatives of members' national notification authorities and enquiry points, used panel presentations and discussions to highlight obstacles to the effective performance of national notification authorities and enquiry points and to identify solutions to these problems. The Standards Council of Canada, Canada's national enquiry point, participated in these discussions.

At the June and October meetings of the Committee, Canada delivered statements on developments relating to bovine spongiform encephalopathy (BSE) in Canada. We provided the latest information on the investigation and Canada's regulatory response (see the BSE overview in this chapter for further information). We called on trading partners to resume trade with Canada, citing science and compelling evidence that the incidence of BSE in Canada is that of a minimal-risk country as defined in the OIE's Terrestrial Animal Health Code. We also encouraged support for the adoption of improvements to the OIE chapter on BSE. On the margins of the Committee meetings, Canada met with key trading partners (China, Chinese Taipei, Hong Kong, Japan and Korea) to press for the immediate, science-based removal of their BSE-related restrictions on imports from Canada.

Bovine Spongiform Encephalopathy

On May 20, 2003, the Canadian Food Inspection Agency (CFIA) announced that it had quarantined an Alberta farm in an investigation of a case of bovine spongiform encephalopathy (BSE), commonly known as mad cow disease. The CFIA immediately launched a thorough investigation. On June 9, the CFIA announced that its active investigation was drawing to a close and that all further test results were negative. The CFIA also announced that a team of international experts had validated its findings and agreed that the active investigation had achieved its maximum potential. On June 26, the international panel team was made public. On July 2, the CFIA's final investigation report was made public.

Canada has taken steps to implement the corrective measures proposed by the international team. On July 18, Canada announced a ban on specified risk material (SRM) for products destined for human consumption, which came into effect July 24. On January 9, 2004, the Government of Canada announced \$92.1 million in funding over the next five years to enhance measures for identifying, tracking and tracing and for increased BSE surveillance and testing. The government is currently consulting stakeholders on animal feed control and surveillance.

Immediately following the May 20 announcement, most of our trading partners instituted temporary import bans on live cattle, beef and beef products from Canada. The United States is by far our largest export market for cattle and beef (annual sales are worth \$3.5 billion, made up of \$1.8 billion in cattle

The Committee continues to be widely used by Canada and other WTO members, including developing country members, as a forum for raising bilateral issues. In 2003, Canada raised 16 issues including Mexico's restrictions on beans, the European Union's biotechnology policies, India's restrictions on bovine semen and Venezuela's import permits. The Committee also serves as a useful forum for members to use in providing updates on issues of interest to other trading partners. During the past

and \$1.7 billion in beef). Other key markets are Mexico (\$185 million), Japan (\$81 million), Korea (\$50 million), Chinese Taipei (\$20 million), China (\$10 million) and Hong Kong (\$3 million). Other exports such as bison, sheep and goats have also been affected.

In addition, some trading partners have imposed measures on products that, based on standards set by the World Organization for Animal Health (OIE) (discussed below), should not be subject to any BSE import measures. These products include milk and milk products, semen and embryos, protein-free tallow and derivatives made from this tallow, and hides and skins.

Since the beginning of the investigation, we have kept all our trading partners fully informed of developments, through direct contacts from ministers and senior officials in Ottawa and through our missions abroad. We have also briefed foreign missions in Ottawa. Following completion of the investigation, based on science and compelling evidence that the incidence of BSE in Canada is that of a minimal risk country as defined in the OIE Terrestrial Animal Health Code, we asked all of our trading partners to resume trade in beef and other products from Canada. We have taken every opportunity to make representations on our market access interests and will continue to do so. We have also called upon trading partners to remove any restrictions on products that, according to OIE standards, should not be subject to BSE measures.

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

BSE and the OIE

The World Organization for Animal Health (formerly the Office International des Epizooties), referred to under the WTO Agreement on the Application of Sanitary and Phytosanitary Measures, is the standard-setting organization responsible for elaborating animal health standards and guidelines and for recommendations on the sanitary safety of animals and animal products in international trade. In 1992, the OIE first developed provisions intended to manage human and animal health risks associated with the presence of the BSE agent in cattle. Since then, the OIE BSE provisions have been updated annually based on new knowledge and information.

Canada, along with the United States and Mexico, has written to the OIE to advocate refocusing the BSE provisions consistent with a more practical, risk-based approach. As well, Canada actively participated in the discussions of the OIE BSE Working Group at its September 2003 meeting. The September meeting produced proposals for significant changes to the OIE Animal Health Code BSE provisions. These changes call for the use of product-specific risks rather than country-based risks and for the country BSE classification system to be based on the effectiveness and duration of the risk mitigation measures that countries have put in place. Canada supports this direction and is actively soliciting the support of other OIE member countries to accept the proposed revisions to the OIE Animal Health Code at the next OIE General Session in May 2004.

year, for example, the United States has regularly provided updates on the status of its bioterrorism legislation, while the United States, Canada, the European Union and others have provided the Committee with updates on the status of their respective import requirements for solid wood packing material.

In 2003, Canada issued 65 SPS notifications to the WTO Secretariat and provided comments on 13 notifications from other countries.

BIOTECHNOLOGY AND GM LABELLING

A number of countries have recently implemented mandatory labelling requirements for food products processed or produced using genetically modified (GM) organisms. The use of labelling to indicate health and safety issues is a legitimate objective, and Canada supports labelling to convey this important information to consumers. However, Canada is concerned about the increased trend toward mandatory method-of-production labelling when other, less

trade-restrictive, options are available. The use of mandatory labelling to indicate the method of production (when this does not pertain to the characteristics of a product) could be used to discriminate against “like products” and could represent a technical barrier to trade. Non-discrimination is a key principle of the WTO Agreement.

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

Canadian industry, producers and consumers are cooperating to provide more information to consumers. These groups recently reached consensus through the Canadian General Standards Board on a voluntary standard that would provide a framework for the voluntary labelling of foods derived through or not derived through biotechnology. This standard has advanced to the next step of the standards development process and, if approved, could be published as a national standard in early 2004. Canada has been promoting this approach with trading partners, such as China, the European Union, Hong Kong, Korea and Malaysia, and will continue to do so with other countries as the opportunities arise.

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

TRADE REMEDIES

Bilateral Level

The Government of Canada plays an active role in monitoring trade remedy developments in countries

of trade interest to Canadian industry. Specifically, the government identifies and analyzes changes in the trade remedy laws and practices of Canada’s key trading partners and makes representations, as appropriate, in specific investigations against Canadian exports. In addition, the government assists Canadian exporters involved in trade remedy investigations by providing information and advice and can participate as a direct respondent in countervailing duty cases.

The government has made submissions to various foreign authorities conducting trade remedy investigations against Canadian products. For example, it has filed extensive responses and interventions with U.S. authorities in the context of the U.S. Department of Commerce investigation of programs in the Canadian wheat sector (further details on this case can be found in the U.S. section in Chapter 4). In addition, government officials made representations in anticipation of a possible sunset review into China’s anti-dumping duty on newsprint from Canada. A review was initiated on July 1, 2003, and is ongoing. Finally, the government continues to follow developments in various disputes under Chapter 19 of the North American Free Trade Agreement (NAFTA) that involve Canadian products, and it is defending Canadian interests in the Extraordinary Challenge launched by the United States regarding a NAFTA Chapter 19 panel decision instructing the U.S. Department of Commerce to repeal anti-dumping duties on pure magnesium.

Last year’s edition of *Opening Doors to the World* reported that the government made representations and monitored India’s anti-dumping investigation involving vitamin C and China’s safeguard investigation into certain steel products. Since that time, the Government of India has made an affirmative dumping determination and applied dumping duties. Similarly, Chinese authorities have informed WTO members of the application of temporary safeguard measures on steel imports. These measures are scheduled to end in May 2005. Also in 2003, Australia investigated grinding mill liners from Canada and announced on September 17, 2003, that dumping duties would be applied. Other anti-dumping investigations initiated in 2003 included one by Korea on choline chloride, one by Mexico on newsprint and one by the United States on kosher chickens.

Regarding the latter, in January 2004, the United States terminated the investigation after a negative preliminary injury determination.

World Trade Organization

In the current multilateral trade negotiations, Canada is pursuing more specific disciplines and improved transparency and clarity in the use of trade remedy measures by our trading partners. In this regard, Canada wants to examine key trade remedy provisions with the goal of strengthening and clarifying the rules to achieve greater international convergence and predictability in their application. To this end, Canada participated in the discussion of issues proposed for negotiations and tabled a general paper on anti-dumping, subsidies and countervailing measures, as well as more detailed submissions on anti-dumping and subsidies. These papers are accessible on the Department of Foreign Affairs and International Trade Web site (www.dfait-maeci.gc.ca/tna-nacl/goods-en.asp#9).

As well as contributing to the work of the WTO Anti-Dumping, Subsidies and Safeguards committees to insure that WTO members administer their trade remedy laws in a WTO-consistent manner, Canada requests third-party rights in WTO dispute settlement proceedings involving trade issues that affect our interests. To this end, Canada is currently engaged as a third party in WTO proceedings in the following cases: the European Union's sugar program, U.S. cotton subsidies, U.S. countervailing duties on steel plate from Mexico, U.S. anti-dumping duties on cement from Mexico, and U.S. anti-dumping duties on oil country tubular goods from Mexico. In addition, in 2003 Canada remained a co-complainant in the WTO challenge of the U.S. Byrd Amendment. (For information on the Byrd Amendment, please see Chapter 4.)

Finally, Canada participated as a third party in the WTO dispute involving the U.S. steel safeguard measures. Following the March 2002 decision to apply tariffs of up to 30% on imports of various steel products, WTO members, including China, Japan and the European Union, challenged the measures at the WTO. Although imports from Canada and Mexico were excluded from any restriction under the provisions of the North American Free Trade

Agreement, the key interest to Canada in this dispute was the challenge by complainant countries that the United States had violated WTO obligations in exempting Canada and other free trade partners from application of the safeguard measures. On November 10, 2003, the WTO Appellate Body upheld the panel finding against the U.S. measure, including a ruling that the United States failed to adequately explain its decision to exempt imports from Canada. On December 4, President George W. Bush announced the termination of the steel tariffs, avoiding possible retaliation from complainants. In his decision, President Bush stated that the tariffs on steel had achieved their purpose, allowing U.S. steel manufacturers to adjust, through consolidations, to increased competition.

Organization for Economic Cooperation and Development Steel Initiative

Work continues, under the auspices of the High-Level Group on Steel, on possible multilateral disciplines on government intervention in the steel sector. The chief objective of this work is to establish disciplines on government subsidies specific to the steel industry that distort steel markets. Such disciplines, combined with industry action to close inefficient and excess steel capacity, are an attempt to address the factors that distort markets and lead to trade actions. Important progress was made in 2003 on product coverage and basic disciplines in a future Steel Subsidies Agreement (SSA). However divergent views remain on exceptions to disciplines and on special and differential treatment for developing countries. Canada will continue, along with the world's major steel producers, to participate in the negotiations and to work toward the successful conclusion of an SSA.

RULES OF ORIGIN

The WTO Agreement on Rules of Origin established a work program to develop common rules of origin for non-preferential trade. The work program was originally slated for completion in July 1998; however, the deadline for completing the core policy issues identified in the December 2002 report of the Committee on Rules of Origin to the General Council has been extended to July 2004. Should

the core policy issues be resolved by July 2004, the Committee on Rules of Origin is to complete its remaining technical work, including a review of the results for overall coherence, by the end of 2004. The inability of the Committee on Rules of Origin to meet the deadline for completing the work program stems from the technical complexity of reaching agreement on rules for all products; the entrenched positions of many members, particularly in the areas of agriculture, textiles and apparel, and industrial products; and the lack of consensus on the implications of the work program (i.e., if and when the harmonized rules should be used).

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

TRADE FACILITATION

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

At the fourth Ministerial Conference in Doha in 2001, ministers agreed to a focused trade facilitation work program leading to negotiations to take place after the fifth WTO Ministerial Conference held in Cancun in September 2003. The government's objectives for the negotiations are to build on existing

WTO obligations (i.e., GATT Articles V, VIII and X) and to negotiate disciplines that would maximize transparency; expedite the release of goods; and reduce, simplify and modernize border-related requirements and formalities.

Canada views trade facilitation as a win-win for all countries and a natural complement to market access negotiations on goods. New multilateral trade facilitation rules would help countries modernize border systems to expedite the flow of goods across borders, while fully meeting non-trade objectives such as security. Improved border systems would also help to reduce business costs for all traders, an issue of particular interest to small and medium-sized companies.

In seeking agreement to negotiate rules on trade facilitation, Canada, with other like-minded WTO members, came forward during 2002 and 2003 with a range of proposals to clarify and improve existing obligations. With the subsequent failure of WTO members to reach a consensus at Cancun, work in this area has been stalled while members seek agreement on possible ways to further advance the wider Doha Development Agenda, including trade facilitation.

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

The Government of Canada is optimistic that the many benefits of trade facilitation, widely recognized both within and outside the WTO, will bring forth the necessary political will to launch negotiations in this area. It will continue its efforts in support of such a launch at the earliest possible date.

Improving Access for Trade in Services

NEGOTIATIONS IN THE GENERAL AGREEMENT ON TRADE IN SERVICES

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

Canada is pursuing multilateral, legally enforceable rules that will allow increased access to foreign markets for Canadian services firms. It is working collectively with other WTO members to further enhance the transparency and clarity of the General Agreement on Trade in Services (GATS) in order to make it more user-friendly. Issues for consideration during the talks include sectors of export interest to Canadian industry, current or potential barriers faced by Canadian industry in providing services to foreign markets or consumers, improving access to countries that are key export destinations for Canadian services providers, and providing Canadians with access to quality services at a competitive price.

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

Canada presented its initial requests to other WTO members by the agreed deadline and, on July 8, 2002, made public a summary of the openings

that it was asking selected countries to make. A description of the initial market access requests that Canada made of other countries is available on-line (www.dfaic-maeci.gc.ca/tna-nac and <http://services2000.ic.gc.ca>). This information was compiled following detailed consultations with Canadian stakeholders and in close cooperation with the provinces and territories. Canada also paid particular attention to the situation of our small and medium-sized enterprises. The requests seek greater market access in 12 sectors of key interest where there is considerable economic opportunity for Canadian services providers, including providers of professional, business, financial, telecommunications, computer and environmental services.

On March 31, 2003, Canada made public the full text of the initial conditional offer it presented to its trading partners in the GATS negotiations. Canada was the first country to commit to making its offer public, and it is pleased that other WTO members have done so as well. Canada's initial offer contains the proposed guarantees of market access and non-discrimination that it would offer to other countries in exchange for greater access to foreign services markets. Canada is proposing to make increased market access commitments in:

- financial services;
- business services (including accounting, legal, architectural, engineering, real estate, and management consulting);
- communication services (courier services);
- construction services;
- distribution services;
- tourism and travel-related services; and
- transport services.

More details on Canada's initial GATS offer are available on the Government of Canada Web site for the GATS negotiations (<http://services2000.ic.gc.ca>).

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

GATS Consultation and Outreach Process

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

The government has been seeking, and will continue to seek, the views of Canadians in developing trade policies and positions, using a broad range of consultative mechanisms. These mechanisms include the Standing Committee on Foreign Affairs and International Trade (SCFAIT) process, as well as the sectoral

advisory groups on international trade (SAGITs). The government is working closely with provincial and territorial governments, which have jurisdiction in many areas of services trade, to develop and adapt our negotiating positions. Municipalities are also included in the government's consultation and outreach process. Equally important, all interested Canadians are invited to provide their comments and views on the issues via the Government of Canada's Web site for the GATS negotiations (<http://services2000.ic.gc.ca>).

In 2004, the government will engage in another round of cross-sectoral consultations and outreach across the country. These consultations will provide valuable input for ongoing GATS negotiations and also feed into the services-related components of our ongoing bilateral and regional free trade negotiations. The government coordinates with the provinces and territories to hear not only from provincial officials but also

from local business groups and local non-governmental organizations regarding Canada's negotiating position. In addition to ensuring a mutually beneficial dialogue between government officials and stakeholders, the consultations provide a regional dimension and balance to Canadians' input concerning the negotiations.

In the context of the guidelines and procedures reaffirmed at the WTO Ministerial Conference in Doha in November 2001, the government will continue to consult, inform and engage citizens as the negotiations progress, ensuring that Canada's position on the GATS continues to incorporate the interests of the Canadian public. The government welcomes the views of interested Canadians. To provide your comments, please visit the Department of Foreign Affairs and International Trade Web site at (www.dfa-it-maeci.gc.ca/tna-nac/) or the Government of Canada Web site for the GATS negotiations (<http://services2000.ic.gc.ca>).

that the government will allow the offer to become binding at the end of the negotiations only if the outcome is satisfactory for Canada.

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

The following sections focus on two services sectors, using them to highlight the sorts of market access challenges facing Canadian services suppliers and the types of improved access Canada is seeking and has offered during the current round of negotiations.

PROFESSIONAL SERVICES

The Canadian professional services sector, led largely by the architectural, engineering and management consulting professions, has experienced continuous

growth in international activities. Exports of architectural, engineering and other technical services alone grew from \$2.6 billion to \$3.6 billion, or 38.9%, from 2001–2002. The capabilities and expertise of Canadian professional services providers are recognized and sought after around the world.

Canadian professional services providers have benefited greatly from the commitments that Canada obtained from other countries in previous GATS negotiations. Moreover, the ongoing GATS negotiations provide an excellent vehicle for promoting greater market access for our professional services, including legal, accounting, auditing and bookkeeping, taxation, architectural, urban planning and landscape architecture services. Canada has asked its trading partners to improve their commitments for professional services by eliminating trade barriers related to, for example, temporary entry regulations, investment and ownership limitations, and nationality and citizenship requirements. These requests have been made, and are being reinforced, in the current market access phase of the GATS negotiations.

In its initial conditional offer, Canada is offering to eliminate residency and citizenship requirements in certain provinces for accounting, architectural, engineering, urban planning, real estate, management consulting and other business services such as translation. In addition, Canada is also offering to facilitate the temporary entry of spouses and common law partners of professionals. Through this offer, Canada hopes to convince other members to match Canada's high level of existing commitments in order to improve market access for Canadian professionals.

In addition to the market access negotiations currently under way at the WTO, Canada is also seeking to improve market access by strengthening existing GATS disciplines respecting transparency, qualification and licensing requirements, and procedures and technical standards. Another tool for enhancing the potential for Canadian exports of professional services is the facilitation of mutual recognition agreement negotiations between Canadian and foreign professional bodies. The Government of Canada will continue to promote and support the negotiation of such agreements.

ENVIRONMENTAL SERVICES

Canada's environmental services sector represents an important segment of the country's dynamic services sector. Canada's environmental services industry numbered over 3,500 firms and public establishments in 2000. Business firms in the industry range from one-person operations to large, multinational corporations. Small and medium-sized enterprises (SMEs), that is, firms with fewer than 500 employees, form a vital part of the industry. In 2000, SMEs accounted for 99.5% of firms in the environmental services industry and made up the largest share of environmental services revenues.

Some of the most promising opportunities for Canadian environmental services firms can be found in international markets. Canada's environmental services exports totalled \$292 million in 2002. Canadian firms have gained international recognition for their innovative and customized solutions. Specific Canadian expertise exists in a number of areas including climate change and clean energy technologies, wastewater technologies, solid/hazardous waste management, engineering and environmental consulting, air pollution control, geomatics, and laboratory and analytical services.

Canadian exporters of environmental services have benefited greatly from the expansion of foreign trade and investment opportunities under international trade agreements such as NAFTA and the GATS. Significant barriers to trade in environmental services still exist, however, which underscore the importance of further liberalization of international environmental services markets in the context of ongoing bilateral, regional and multilateral trade negotiations. Canadian stakeholders have identified, in particular, a lack of transparency in regulatory regimes and practices: limitations on investment and establishment; restrictions on the entry and stay of managers, professionals and experts; and unfair licensing requirements as representing key barriers to trade in environmental services. In Canada's view, the cost of maintaining such barriers in the environmental services sector can have a significant impact on costs and the variety of services that can be provided to consumers. Moreover, it can act as a disincentive for the global diffusion of environmental technology, skills and expertise.

The largest market for Canadian exports of environmental services is the United States. However, promising opportunities for Canadian environmental services firms exist in South America, especially Argentina, Brazil and Chile, where a number of large projects financed by international financial institutions are being initiated. A number of Canadian firms have also been attracted by the growing demands for environmental services from Asian economies such as China, Chinese Taipei, India, Indonesia, Korea, Malaysia, Singapore and Thailand. Finally, Canadian companies have actively pursued market access interests in a number of Central European countries including the Czech Republic, Poland and the Slovak Republic, where market demand for Canadian knowledge and expertise in environmental services is growing.

In the context of the ongoing GATS negotiations, Canada has submitted market access requests to many WTO members, with the aim of seeking more open and liberal international markets for Canadian environmental services firms. Canada believes that substantial benefits can be derived from greater trade liberalization in environmental services, since this could pave the way for a much greater variety of environmental services and services providers.

Issues that affect Access for Trade in Goods and Services

TEMPORARY ENTRY FOR SERVICES PROVIDERS

Many Canadian firms export their services to markets around the world. In order to expand their export activities, these businesses require the additional certainty that comes from the development of international rules for trade in services. This is particularly the case with respect to the mobility of people. In today's global economy, companies need to move key personnel (e.g., managers, executives, specialists) to foreign markets on a temporary basis to provide services to a subsidiary or affiliate, assist with the sale or delivery of products or services, consult with

clients or negotiate contracts. In addition, individual services providers, such as professionals, require access to foreign markets to deliver their services.

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

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

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

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

INVESTMENT

WTO ministers were unable to reach consensus on modalities for negotiations on investment at the fifth Ministerial Conference in Cancun in September 2003. Canada continues to believe that for host countries, a framework that enables the cross-border flow of investment would facilitate technology transfer and contribute to economic growth and development. Likewise, investors would benefit from the certainty provided by enhanced rules on transparency and non-discrimination.

COMPETITION POLICY

Canada supports the establishment of a multilateral framework on competition policy, though there was no agreement reached at Cancun to pursue negotiations. Canada believes that a framework for competition policy will ensure that the gains from trade and investment liberalization are not undermined by the anti-competitive behaviour of private actors. By establishing a coherent set of principles for sound competition policy among all members, a multilateral agreement would ensure a competitive environment and a more transparent and predictable climate for foreign trade and investment. An agreement would also contribute to the important objective of building institutional capacity in developing countries.

TRANSPARENCY IN GOVERNMENT PROCUREMENT

WTO ministers were unable to reach consensus on launching negotiations on transparency in government procurement at the fifth Ministerial Conference held in Cancun in September 2003. Canada continues to see value in working toward a multilateral agreement on transparency in government procurement. At the November 2001 WTO Ministerial in Doha, ministers addressed a key concern of developing countries by establishing

that a transparency agreement would not restrict the scope of countries to use domestic preferences in their procurement. Canada's current transparency practices are compatible with the elements under discussion at the WTO. Such an agreement would benefit exporters of goods and services that are seeking opportunities to sell to governments or to subcontract to domestic suppliers. As well, an agreement would benefit member countries by increasing the value received for their procurement expenditures, improving the governance infrastructure and reducing the possibility of corruption.

GOVERNMENT PROCUREMENT

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

Canada, along with 27 other countries, is party to the WTO Agreement on Government Procurement (AGP). The AGP provides the basis for guaranteed access for Canadian suppliers to the United States, the European Union, Japan and other key markets. Canada continues to pursue greater and more secure market access through the AGP. A review of the AGP, with a mandate to expand coverage, eliminate discriminatory provisions and simplify the agreement remains a priority. Work is continuing, with input from the provinces and other stakeholders, to establish Canada's priorities for further market access.

DISPUTE SETTLEMENT

The WTO currently has 146 members. Given this large membership, disputes occasionally arise among members over the application of the rules contained in the Agreement Establishing the World Trade Organization. To resolve such disputes, WTO members have agreed to follow an elaborate

process contained in the WTO Dispute Settlement Understanding (DSU). This process includes consultations, reviews by independent panels when parties are unable to settle their differences at the consultation stage and possible recourse to a standing Appellate Body. The DSU helps ensure that members adhere to the trade rules they have negotiated and reduces the scope for unilateral trade actions. The DSU is, without question, a key element of the rules-based, multilateral trading system.

There are relatively few cases among WTO members at any given time. Many complaints are resolved without recourse to the WTO dispute settlement system.

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

On January 8, 2003, a panel was established to hear Canada's challenge of the U.S. Department of Commerce's final determination of dumping. Canada considers the Department of Commerce's final determination to be inconsistent with the United States' WTO obligations under the Anti-dumping Agreement. The panel's final report is expected in the spring of 2004.

On May 7, 2003, a panel was established to hear Canada's challenge to the final determination of the U.S. International Trade Commission that a U.S. industry is threatened with material injury due to imports of softwood lumber from Canada. Canada considers that this final determination, and the resulting duties imposed on imports of Canadian softwood lumber, are WTO-inconsistent. The panel's final report is expected in the spring of 2004.

On August 29, 2003, the final report was released by a panel established to hear Canada's complaint against the United States regarding the U.S. Department of Commerce's final determination of subsidy with respect to certain softwood lumber from Canada. The panel's findings were subsequently appealed, and the Appellate Body released its report on January 19, 2004. Details can be found on the WTO dispute

settlement Web site (www.wto.org/english/tratop_e/dispu_e/dispu_e.htm), under document number 04 - 0145 or symbol WT/DS257/AB/R.

Also in August, a panel was established to hear a complaint by Canada, the United States and Argentina against the European Union's moratorium on the approval and marketing of biotech products. The complainants consider that these measures are inconsistent with the European Union's obligations under the Agreement on the Application of Sanitary and Phytosanitary Measures, the Agreement on Technical Barriers to Trade and the GATT 1994. The panel report is expected in the fall of 2004.

Canada was also a defendant in two cases. In March 2003, a panel was established to hear a U.S. complaint that certain actions of the Government of Canada and the Canadian Wheat Board, as well as some Canadian grain transportation policies, are WTO-inconsistent. The panel report is expected in the spring of 2004.

As well, an earlier U.S. and New Zealand challenge to Canada's dairy export pricing mechanism was resolved in May 2003, when the United States and New Zealand withdrew their requests for retaliation following the implementation of compliance measures by Canada.

The WTO Dispute Settlement Understanding is arguably the most effective system in existence for resolving disputes between sovereign states. Many believe, however, that it can be further improved. WTO members therefore agreed, at the fourth Ministerial Conference in Doha, to negotiate improvements and clarifications to the DSU by May 2003. Although members were unable to reach agreement by that date, the WTO General Council subsequently agreed in July to extend the deadline for DSU negotiations by one year to May 2004. Members also agreed to have the talks continue on the basis of the work already done, including a draft text produced by the chair and proposals by members.

In January 2003, Canada submitted a proposal to improve the DSU with respect to enhanced transparency, the protection of confidential information and the panel roster system. Canada will continue to build support for these proposals and will also work

to secure agreement on a number of other improvements to the DSU, including the sequencing of compliance proceedings, alternatives to retaliation, the remand of issues from the Appellate Body to panels, and enhanced rights for members who are third parties to disputes.

Discussions are continuing in an effort to build consensus on a package of improvements to the DSU by the new deadline of May 2004. However, the number of substantive proposals for changes to the DSU, coupled with slow progress in the negotiations, calls into question whether the new deadline will be met.

Accessions to the World Trade Organization

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

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

The WTO has 146 members, with Armenia, China, Chinese Taipei, Lithuania, Moldova and the former Yugoslav Republic of Macedonia among the most recent members. At the fifth WTO Ministerial Conference in September 2003, Members welcomed the accession of Cambodia and Nepal, which will be the first least-developed countries to join the WTO since 1995.

Canada is active in the accession negotiations of all applicants. To date, the following 25 countries are seeking accession: Algeria, Andorra, Azerbaijan, Bahamas, Belarus, Bhutan, Bosnia and Herzegovina, Cape Verde, Ethiopia, Kazakhstan, Lao People's Democratic Republic, Lebanese Republic, Russian Federation, Samoa, Saudi Arabia, Serbia and Montenegro, Seychelles, Sudan, Tajikistan, Tonga, Ukraine, Uzbekistan, Vanuatu, Vietnam and Yemen.

As well, Canada is working actively with other members to facilitate the accessions of least-developed countries (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 Recommendations for Facilitating and Accelerating the Accession of the LDCs to the WTO Agreement, approved by the WTO General Council in December 2002.

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

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

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

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



3 *Investment*

Foreign investment flows worldwide have grown rapidly in recent years and have figured prominently in the trend toward global economic integration. The global stock of outward foreign direct investment has increased more than 10-fold over the past two decades, from US\$594 billion in 1982 to US\$6.9 trillion in 2002.

Canada is an active player in this global economy. The stock of Canadian direct investment abroad (CDIA) increased over fourfold from \$98.4 billion in 1990 to \$432 billion in 2002. Over the same period, the stock of foreign direct investment in Canada more than doubled, from \$131 billion to \$349 billion. Since 1997, the stock of Canadian direct investment abroad has surpassed the stock of foreign direct investment in Canada.

Canadian Direct Investment Abroad

Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. For many Canadian firms, investment abroad is an essential element of business strategy, particularly in high-growth markets, where a physical presence is often a prerequisite for effective access. These firms understand that higher levels of investment in foreign markets are often linked to higher levels of export penetration into those markets. In fact, the Organization for Economic Cooperation and Development (OECD) has found that each dollar of outward foreign direct investment is associated with some two dollars of additional exports.

In 2002, 47% (\$202 billion) of Canadian direct investment abroad was located in the United States. A further 23% of CDIA (\$100 billion) was based in the European Union. Other major Canadian investment locations include the Caribbean, Latin America and Japan. In line with global trends, developing countries are becoming increasingly important destinations for CDIA. In 1990, 13% (\$13.1 billion) of Canada's outward investment was in non-OECD developing countries. By 2002, that proportion had increased to approximately 20% (\$87 billion).

With 41% of the total stock of CDIA in 2002, the finance and insurance sector continued to be the largest sector for CDIA. In 2002, significant amounts of CDIA were in services and retailing and the energy and metals industries, bringing their proportion of the total stock of CDIA to 13% and 19%, respectively.

Foreign Direct Investment in Canada

The benefits of investment flows are now well recognized, and countries compete aggressively to attract inward investment. Inward foreign direct investment in Canada is an important source of

Canada's Investment Regime

Canada has a relatively open investment regime, which compares well internationally. Under the Investment Canada Act, a notice or an application for review must be filed for all acquisitions of existing Canadian businesses or establishments of new Canadian businesses. Reviewable transactions are approved by the minister responsible for the Act, once that minister is satisfied that the investment is likely to be of net benefit to Canada.

In 2003, direct acquisitions of Canadian businesses by WTO members were subject to a review threshold of \$223 million. This amount is adjusted annually based on changes in nominal gross domestic product. Direct acquisitions by non-WTO investors of Canadian businesses with assets of \$5 million or more are reviewable. In addition, indirect acquisitions are also subject to review if the assets of the Canadian business are at least

\$50 million or if the assets are between \$5 million and \$50 million and represent more than 50% of all assets being acquired.

The acquisition of a Canadian business involved in cultural industries, financial services, transportation services or uranium production is subject to the lower thresholds regardless of the nationality of the investor or vendor. Acquisitions in cultural industries (i.e., publication and distribution of books, magazines, newspapers, videos, music recordings, etc.) and the establishment of new businesses in these cultural industries may be reviewable, if the government elects to ensure that there is a "net benefit" to Canada.

In the area of financial services, Canada does not maintain foreign ownership restrictions for banks. Acquisitions of Canadian banks are linked to the new size-based ownership regime, which came into force in October 2001. Under the new rules, no single person (Canadian or

foreign) may acquire more than 20% of the voting shares or 30% of the non-voting shares in a large bank (i.e., a bank with equity of \$5 billion or more). For medium-sized banks (i.e., banks with equity between \$1 billion and \$5 billion), individual shareholdings are allowed up to 65%, provided that at least 35% of voting shares are listed and traded on a recognized exchange and are widely held. Small banks (i.e., banks with equity of less than \$1 billion) have no ownership restrictions other than a "fit and proper" test.

The Investment Canada Web site provides guidelines on the application of the Investment Canada Act (www.investcan.ic.gc.ca). Canada has long been a supporter of a rules-based (rather than power-based) approach to international trade and investment, and it seeks to encourage the investment regimes of other countries to adopt Canada's level of openness.

jobs and economic growth. Foreign direct investment provides capital, new ideas, new technologies and innovative business practices.

In 2002, the United States accounted for \$224 billion or 64% of total foreign direct investment in Canada. The European Union represented \$103 billion or 29% of total foreign direct investment in this country. Other significant investors included Japan (\$9 billion) and Hong Kong (\$5 billion). In 2002, the major recipient sectors for foreign direct investment flows into Canada were energy and metallic minerals (23%), followed by finance and insurance (19%), and machinery and transportation equipment (14%).

Canada's International Investment Agenda

Investment rules play an important role in protecting and facilitating the foreign investment activities of Canadian firms. Canada is a medium-sized economy, whose current and future prosperity depends on open markets, a stable trading environment and a fair and impartial means of settling trade disputes. Investment rules offer a greater measure of security for Canadian

investors and ensure that national policies will not be unduly changed or applied in a discriminatory manner. Canadian firms can also mitigate their exposure when making foreign investments in risky regions by purchasing political risk insurance. Political risk insurance is available from commercial insurers, as well as from Export Development Canada (EDC). For more information, please visit the EDC Web site (www.edc.ca).

Canadian firms continue to encounter investment barriers abroad, including investment prohibitions, restrictions on the scope of business activity, performance requirements, investment authorizations, residency requirements and restrictions on the movement of business people. These difficulties tend to be most frequently reported with respect to Africa, Central and South America, China and Russia.

Investment agreements do not restrict a country's ability to regulate in the public interest. Foreign investors in Canada (and Canadian investors in foreign markets) must abide by the domestic laws of the host country and obey the same rules as nationals. For example, investors are not exempt from domestic competition laws or local regulations relating to health, labour or the environment.

BILATERAL INITIATIVES

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

BILATERAL AND REGIONAL FREE TRADE AGREEMENTS

The North American Free Trade Agreement with the United States and Mexico includes a comprehensive investment chapter. This investment chapter provided a basis for the investment provisions in the Canada–Chile Free Trade Agreement and most of Canada's FIPAs. Investment negotiations with other countries in Latin America and the Caribbean are an integral aspect of the ongoing negotiations of the Free Trade Area of the Americas, as well as of a free trade initiative with the Central America Four (CA4: El Salvador, Guatemala, Honduras and Nicaragua). Investment provisions are also likely in any potential free trade agreements with the Caribbean Community and Common Market, the Andean Community countries and the Dominican Republic. As well, investment negotiations are being conducted in the context of negotiations toward a free trade agreement with Singapore.

WORLD TRADE ORGANIZATION

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

Over the course of 2002 and 2003, Canada submitted nine papers to the WTO Working Group on the Relationship between Trade and Investment. These papers examined a number of issues, including the seven elements identified for clarification in paragraph 22 of the Doha Declaration: scope and definitions, non-discrimination, modalities for pre-establishment commitments based on a positive list approach (similar to that in the General Agreement on Trade in Services), development provisions, exceptions and balance-of-payments safeguards, consultations, and the settlement of

disputes between members. Canada has participated actively in technical assistance and capacity-building activities organized by the WTO, the United Nations Conference on Trade and Development and other appropriate organizations, in recognition of the importance ministers placed on such assistance in the Doha mandate.

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

ASIA-PACIFIC ECONOMIC COOPERATION FORUM

Canada is also involved in regional investment discussions with Pacific Rim countries through the Asia-Pacific Economic Cooperation (APEC) forum. Through a program of voluntary individual action plans guided by non-binding investment principles, APEC economies work to liberalize their investment regimes by removing restrictions on market access and strengthening their legislation to protect foreign investment. At the 14th APEC Ministerial Meeting held in Bangkok, Thailand, in October 2003, Canada, along with the other APEC economies, agreed to implement a set of “Transparency Standards on Investment.” The purpose of these standards is to ensure, at a minimum, that APEC members promptly publish or otherwise make available their laws, regulations, guidelines and other measures affecting investment. In agreeing to these standards, APEC members are one step closer to meeting the Bogor goals of free and open trade and investment in the APEC region by 2010 for developed economies and 2020 for developing countries. The standards can be viewed at the APEC Web site (www.apecsec.org.sg).

Corporate Social Responsibility

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

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

The government has established a National Contact Point (an interdepartmental committee) to work closely with business and other stakeholders to raise awareness of the guidelines and assist in the resolution of issues. The guidelines and other international standards and best practices, such as the UN Global Compact and Tripartite Declaration of the International Labour Organization, provide corporations with a common frame of reference for responsible business practices. This is particularly important in countries where governance structures are weak.

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

Further information is available from Canada’s National Contact Point for the OECD Guidelines for MNEs Web site (www.ncp-pcn.gc.ca) or the Department of Foreign Affairs and International Trade Web site (www.dfait-maeci.gc.ca/tna-na/social-e.asp).



4 *Opening Doors to the Americas*

North American Free Trade Agreement

January 1, 2004, marked the 10th anniversary of the entry into force of the North American Free Trade Agreement (NAFTA). Designed to keep pace with emerging challenges through its ongoing work program, NAFTA has established a strong foundation for future growth and has provided a valuable example of the benefits of trade liberalization. Total trade between Canada, the United States and Mexico has increased substantially since NAFTA was implemented. Canada's total merchandise trade with the United States and Mexico was approximately \$545 billion in 2003.

Through NAFTA, Canada has consolidated its position as the largest trading partner of the United States. Canadian merchandise exports to the United States grew at a compounded annual rate of 8.6% between 1990 and 2003. With bilateral trade in 2003

reaching \$14 billion, Mexico is now Canada's sixth largest export destination and ranks fourth as a source of imports worldwide. In terms of Canada's total merchandise exports, 87% goes to our NAFTA partners.

Trade in services has also increased through NAFTA. In 2001, Canada's trade in services with the United States and Mexico was approximately \$78 billion, up from \$46 billion in 1994 (an average annual compounded growth rate of 8%). Since 1997, the two-way trade in services between Canada and Mexico has grown at a compounded annual rate of 11.6%, to reach over \$1.4 billion. Our trade in services with the United States reached \$74 billion in 2003, up from \$42.3 billion in 1993. In terms of Canada's total services exports, approximately 60% goes to our NAFTA partners.

In terms of investment, NAFTA has also had a positive impact on its parties, including Canada. Since 1994, annual foreign direct investment inflows into Canada averaged \$23 billion, 6.6 times the average registered over the three pre-NAFTA years of 1991 to 1993. Total foreign direct investment in Canada reached \$349 billion in 2002, of which more than 64% came from our NAFTA partners. Foreign direct investment in Canada from the United States increased to \$224 billion in 2002. Canadian direct investment in its NAFTA partners also grew, reaching \$202 billion in the United States in 2002 and \$3.3 billion in Mexico.

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

Looking Forward

NAFTA, with its ongoing working groups and implementation commitments, is in many ways a living document, and it holds much scope for achieving further market access improvements. The Government of Canada will continue to identify remaining impediments to trade and investment and to conduct the work needed to reduce them further through NAFTA. The government's priorities within this context are those activities that can have an important positive effect on business.

On October 7, 2003, Canada hosted this year's meeting of the NAFTA Commission. At this meeting, ministers approved a series of practical steps to promote further trade and instructed officials to continue to review opportunities for further trilateral work. On market access, ministers asked officials to pursue further liberalization of the NAFTA rules of origin and to study the three countries' most-favoured-nation tariffs, in order to determine ways to reduce transaction costs. The necessary consultations with domestic industries to identify which products could be covered by this exercise were launched on December 20, 2003.

The October 7 Commission meeting also produced further improvements to the transparency and efficiency of the Chapter 11 (Investment) dispute settlement process. The three ministers approved guidelines for submissions from non-disputing parties, as well as a standardized form for notice of intent to submit a claim. These important steps build upon the Notes of Interpretation issued in July 2001. In addition, ministers directed officials to continue seeking ways to improve implementation of the investment chapter. In a further step to enhance the transparency of the Chapter 11 dispute settlement process, Canada and the United States affirmed that they will consent to open public hearings in all Chapter 11 arbitrations to which either is a party, and that they will request the consent of disputing investors to such open hearings. Canada and the United States will continue to work with Mexico on this matter.

The ministers also welcomed the establishment of the North American Steel Trade Committee, which, among other objectives, will promote continued cooperation among the three governments on international steel policy matters and work to reduce remaining distortions in the North American steel market.

Settling Disputes under NAFTA

NAFTA provides a dispute settlement process to resolve the disputes that arise in such a large trade and economic relationship. When the parties cannot resolve their differences through informal discussion in the relevant committees and working groups, or through other consultations, NAFTA provides for expeditious and effective dispute settlement procedures.

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

From November 1, 2002, to November 1, 2003, two Chapter 19 panels reviewing decisions made by Canadian agencies involving U.S. products were active. These decisions centred on dumping and injury determinations relating to iodinated radiographic contrast media. During the same period, the panel proceeding regarding the injury determination was completed. Four decisions, including decisions on remand, were issued in relation to these reviews.

In addition, seven requests for Chapter 19 panel review of decisions made by U.S. agencies regarding Canadian products were filed during the same period, involving steel wire rod, alloy magnesium, durum wheat and hard red spring wheat. There were also requests for reviews related to anti-dumping and countervail determinations for both of these wheat products and injury for hard red spring wheat. During this time, 12 reviews of decisions made by U.S. agencies regarding Canadian products were active. The reviews involved products such as magnesium, carbon steel, softwood lumber, steel wire rod, durum wheat and hard red spring wheat. Also during that period, four panel decisions were issued involving magnesium and softwood lumber, while one review involving magnesium was completed and another two involving dumping determinations on durum wheat and hard red spring wheat were withdrawn.

One Extraordinary Challenge Committee (ECC) proceeding involving the United States and Canada, which relates to pure magnesium from Canada, was requested and is still active. Another ECC proceeding involving the United States and Mexico, which relates to grey Portland cement and clinker from Mexico, was completed.

North American Steel Trade Committee

On October 6, 2003, the NAFTA partner governments announced the creation of the North American Steel Trade Committee, which met for the first time in Mexico City on November 21. Composed of officials of the three NAFTA governments and representatives of the North American steel industry, the committee offers a useful forum within which to discuss multilateral, trilateral and bilateral trade issues related to steel and steel trade. As well, it provides a consultative mechanism through which the circumstances that may give rise to trade frictions within North America can be defused. The next meeting will be held in Ottawa in May 2004.

Standards-related Measures

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

The four NAFTA sectoral subcommittees (automotive, land transportation, telecommunications and textile labelling) also provide excellent forums for trilateral cooperation in the area of standards and regulations. The land transportation and textile labelling subcommittees are pursuing a work program intended to harmonize standards and facilitate trade; they have achieved substantial progress in the area of driver/vehicle compliance for trucks and the care labelling of textile goods, respectively. In the telecommunications and automotive sectors, where standards measures have been generally complementary, the subcommittees are pursuing further bilateral cooperation, along with increased coordination of activities in international forums.

Canada is seeking more complete implementation by the United States of its NAFTA and World Trade Organization (WTO) sub-federal commitments, with a view to upgrading or modernizing U.S. sub-federal standards measures to better accommodate the volume and variety of our trade in manufactured goods. Canada is also working to enhance bilateral dialogue at the provincial and state level in order to increase cooperative activities in the area of standards and regulations development.

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

The United States

Overview

Canada and the United States remain each other's largest trading partners, moving approximately \$1.8 billion worth of goods and services across the border each day. Between 1993 and 2003, two-way trade in goods has increased approximately 7.2% compounded annually. In 2003, Canada exported \$328 billion in goods to the United States and imported \$203 billion in return. Fully 86% of Canadian merchandise exports are destined for the United States. Services exports to the United States totalled \$33.4 billion in 2003, with corresponding imports of \$40.7 billion. Since the implementation of the Free Trade Agreement (FTA) in 1989, two-way trade has more than doubled.

U.S. direct investment in Canada has increased from approximately \$85 billion in 1991 to \$224 billion in 2002, while Canadian direct investment in the United States has grown from \$63 billion to a total of \$202 billion in the same period.

It is difficult to overstate the importance of our trade relationship with the United States. Opportunities exist for Canadian business in virtually every sector. To realize these opportunities, the Department of Foreign Affairs and International Trade introduces small and medium-sized enterprises to the market, with a particular focus on helping women, young entrepreneurs and Aboriginal firms begin business relationships in the United States. The ExportUSA initiative, which consists of the New Exporters to Border States (NEBS), Reverse NEBS and Exporters to the United States (EXTUS) programs, has been highly successful in this regard, having helped more than 19,000 companies make their entrance into

the U.S. market since 1984. The Government of Canada also encourages Canadian exporters that have succeeded in more than one region of the United States to “graduate” to other international markets. For further information, visit the Department of Foreign Affairs and International Trade’s Canada–U.S. relations Web site (www.can-am.gc.ca).

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

Within the United States, many individual states have economies that are larger than those of whole countries. Over the past year, several federal cabinet ministers and deputy ministers have made visits to important U.S. regions to help forge relationships with government and business leaders. These initiatives are necessary to advance Canadian priorities and to highlight the attractiveness of Canada as an investment destination.

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

Market Access Results in 2003

- On October 3, 2003, Deputy Prime Minister John Manley and Homeland Security Secretary Tom Ridge issued the fourth status report on the Smart Border Action Plan and reaffirmed their commitment to deepening cooperation in several areas, including biosecurity, border security science and technology, and critical infrastructure protection.
- In May 2003 and again in October, Canada and the United States announced expansions of the Free and Secure Trade (FAST) and NEXUS programs. FAST partners governments with the private sector to promote a secure supply chain for low-risk goods crossing the land border and is now operational at

12 major crossings. NEXUS facilitates the movement of pre-approved low-risk frequent travellers and is now open at 13 crossings.

- With respect to bovine spongiform encephalopathy (BSE), the United States announced in August 2003 a reopening of the U.S. border for boneless beef and certain other products.
- On January 1, 2003, Canada and the United States implemented measures to liberalize the NAFTA rules of origin applicable to seven products, making it easier for exporters of these products to meet the rules of origin and benefit from duty-free treatment under NAFTA. The measures are currently being considered by the Mexican Senate.
- In September 2003, under the enhanced representation initiative, the Government of Canada announced that it will open seven new consulates, upgrade two consulates to consulates general and appoint 20 honorary consuls in the United States. The move will strengthen Canada’s capacity to advocate its interests in vital economic, political and security matters and to develop innovative strategic partnerships in emerging U.S. economic power centres.
- In April 2003, Canada and U.S. Customs along with CN and CP Rail signed a declaration setting out operational principles and procedures for screening cargo and processing rail shipments in order to promote rail security and access to the United States.
- In July 2003, Canada and the United States announced harmonized rules for reporting cargo, which will be phased in over the next two years.
- In October 2003, Homeland Security Secretary Ridge announced that under current U.S. policy, the vast majority of Canadian citizens travelling to study or work in the United States would not be subject to the congressionally mandated entry–exit tracking known as the U.S. VISIT program.

Canada’s Market Access Priorities for 2004

- Continue to pursue unrestricted access to the U.S. market for Canadian softwood lumber.
- Continue to press the United States for early science-based reopening of the U.S. border for live animals and continue working with the United States and Mexico on a coordinated North

Enhanced Representation Initiative

The September 2002 Speech from the Throne called for an increase in Canada's consular presence across the United States to expand and secure trade and to advance innovation in the Canadian economy through science and technology, strategic alliances and investments.

In response, the February 2003 budget identified funding for an Enhanced Representation Initiative aimed at improving the Government of Canada's ability to operate more effectively in the United States in the context of an increasingly integrated North American economy. This initiative will enable Canada to take advantage of opportunities and innovations in the U.S. market,

which are critical for Canadian prosperity. Defending Canada's existing interests, increasing business development and investment, and attracting science and technology require resources on the ground to build effective market intelligence networks and relationships with influential players.

In September 2003, the Government of Canada announced that it will open seven new consulates in the United States, upgrade two consulates to consulates general and appoint 20 honorary consuls as part of the Enhanced Representation Initiative. The move will strengthen Canada's capacity to advocate its interests in vital economic, political and security matters, and to develop innovative strategic partnerships in emerging U.S. economic power centres.

The Enhanced Representation Initiative will be completed by the fall of 2004. Canada will open a new consulate general in Denver and new consulates in Anchorage, Houston, Philadelphia, Phoenix, Raleigh–Durham and San Diego. The existing consulates in Miami and San Francisco will be upgraded to consulates general. This will increase Canada's representation in the United States from 15 to 22 offices. The honorary consuls will be appointed in strategic U.S. cities to champion our interests where there are no Canadian government offices. This initiative will reinforce Canada's presence in the United States and fill important gaps in our current representation, particularly in the Southeast, Southwest and Midwest.



American approach to both the regulatory and trade aspects of the current BSE challenges.

- Explore possibilities for greater Canada–U.S. regulatory cooperation.
- Ensure that the United States respects its WTO domestic support commitments in implementing the Farm Act and increase awareness in the United States of the disruption that its country-of-origin labelling provisions will cause to Canada–U.S. agricultural trade.
- Continue implementing the Canada–U.S. Smart Border Action Plan to build a secure and efficient border that is open for business but closed to terrorists.
- Continue to monitor changes to U.S. electricity regulations and/or energy legislation to ensure that any reliability standards in the electricity sector are developed jointly by Canadian and U.S. authorities.
- Continue to increase awareness in the United States that discriminatory minimum renewable energy provisions at the state level run counter to our shared energy security and environmental objectives.
- Continue to work with U.S. Immigration, Canadian business and within the NAFTA Temporary Entry Working Group to further facilitate the cross-border movement of business people.
- Continue to press U.S. governments to further open up their procurement markets to Canadian suppliers.
- Continue to press the U.S. Customs and Border Protection Bureau and the U.S. Food and Drug Administration to adopt a more consistent approach in developing and implementing regulations for prior notice of shipments in order to avoid unnecessary disruption to trade.
- Pursue the removal of U.S. duties on Canadian wheat.
- Continue to press various U.S. states to ensure that Canadian firms are taxed in a fair and consistent manner in accordance with international taxation norms.
- Continue to oppose the extraterritorial application of U.S. laws and regulations.

Canada's Advocacy in the United States

The Government of Canada announced a program in May 2002 to intensify Canada's trade advocacy efforts in the United States. Funds from this program have been used to support the advocacy efforts of the Department's network of diplomatic missions in the United States, including organization of and participation in a wide variety of activities and events (e.g., congressional tours of Canada, pavilions at U.S. trade shows, symposia, and other efforts designed to raise awareness of key government, business and media contacts). The Department has also directed the funds to help support initiatives conducted by partners (including provincial and territorial governments, municipalities, parliamentarians, industry, academia and unions), as part of the government's ongoing strategy of using all available channels of influence to advance Canadian positions on key trade issues in the United States.

- Continue to extend Canada's network of representation in the United States for greater strategic engagement on investment and trade issues.
- Continue to monitor closely and respond to key measures that may distort trade and investment decisions in the North American market.

IMPROVING ACCESS FOR TRADE IN GOODS

Softwood Lumber

Following the expiry of the Canada–U.S. Softwood Lumber Agreement on March 31, 2001, the U.S. Department of Commerce (DOC) initiated countervailing and anti-dumping investigations of certain softwood lumber products from Canada. On May 22, 2002, following these investigations, the

DOC imposed final countervailing and anti-dumping duties averaging 27.22%. The DOC excluded the Atlantic provinces from the countervailing duty investigation, but Atlantic producers have to pay the anti-dumping duty of 8.43%.

The Government of Canada, the provinces and Canadian industry have been pursuing a two-track strategy for resolving the softwood lumber dispute: negotiations with the U.S. government toward a durable resolution of the dispute and litigation involving challenges of the U.S. duties under NAFTA and before the WTO.

The long-term policy-based solution to the dispute, which has been under discussion with the United States over the past year, involves the publication by the U.S. Department of Commerce of a policy bulletin that would guide the DOC in reviewing future changes in provincial forest management practices, the subject of the U.S. countervailing duty order. Successful reviews would lead to revocation of the countervailing duty order for a province. Extensive discussions have taken place with provinces to shape the policy bulletin and the examples it includes for specific provinces.

Also under discussion is a settlement that would eliminate the duties, settle the litigation and allow provinces to pursue policy reform. The Government of Canada is consulting with provinces and industry on what would be required to achieve a negotiated resolution. The government has always seen a settlement as an interim measure that would give provinces time to undertake the policy reforms that would lead to free trade.

Six legal challenges have been undertaken before the WTO and under the NAFTA concerning the final U.S. subsidy, dumping and injury determinations. The NAFTA remand process will likely continue through this year, and implementation of WTO reports may continue into 2005.

The Government of Canada is continuing to provide programs to assist Canada's forest industry, as well as the communities and workers affected by the dispute. These measures include funds for displaced workers under expanded employment insurance programs, community capacity building, competitiveness initiatives, research and development programs and a boreal forest research consortium. The government

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

Bovine Spongiform Encephalopathy

On May 20, 2003, following the Canadian Food Inspection Agency (CFIA) announcement that it had quarantined an Alberta farm in an investigation of a single case of BSE, the United States closed its border for Canadian beef, live animals and other products. The United States is our biggest market for cattle and beef, valued at \$4.9 billion. Other products were also affected including bison, sheep and goats. (For further information, see the BSE overview in Chapter 2.)

On August 8, the United States announced its decision to reopen the border to Canadian boneless beef and products from cattle under 30 months of age. In addition, the United States announced that a rule-making process would begin immediately for the import of live ruminants and ruminant products. Trade in the export of boneless beef, veal and other beef products has now normalized.

Our next critical issue with the United States is live animals. Live cattle were a key component of Canada's exports to the United States. Canadian exports of cattle, bison, sheep and goats are all now prohibited. The United States commenced a rule-making process in the autumn, and Canada submitted detailed comments on January 5, 2004. The timing of a U.S. decision is unclear. Canada will continue to press for an early reopening of the border for live animals.

Following the United States' December 23 announcement of a BSE case in Washington State, Canada imposed interim import measures on certain U.S. products. There have been subsequent amendments to the import measures.

On January 16, 2004, Agriculture and Agri-Food Minister Bob Speller, U.S. Secretary of Agriculture Ann Veneman and Mexican Secretary of Agriculture Javier Usabiaga issued a joint statement recognizing the highly integrated nature of the North American beef industry, as well as the need for a coordinated approach to address both regulatory and trade aspects of the current BSE challenges. The three ministers also noted that the parties have been working

together to update the World Organization for Animal Health (OIE) guidelines and applications for the international trade in safe animal and animal products. Each government agreed to designate a sub-cabinet-level official to coordinate the ongoing inter-agency efforts aimed at a resumption of exports based on a harmonized framework.

Systemic Trade Remedy Issues

Canada continues to monitor trade remedy developments in the United States in order to ensure that any new rules, as well as the implementation of existing ones, conform with U.S. international trade obligations. In this regard, Canada has made specific representations for clarification of U.S. Department of Commerce practices regarding duty assessments and calculation methodology that could have serious adverse consequences for many Canadian exporters in future anti-dumping and countervailing investigations.

Byrd Amendment

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

Canada believes that the amendment is a fundamental and misguided change in policy that could have unfortunate consequences for international trade in general and the administration of trade remedy law in particular. It also believes that these payments are not consistent with the WTO agreements governing anti-dumping and subsidies and countervailing measures. Accordingly, Canada, along with 10 other WTO members (Australia, Brazil, Chile, the European Union, India, Indonesia, Japan, Korea, Mexico and Thailand), successfully challenged the Byrd Amendment before the WTO.

On January 27, 2003, an Appellate Body report, confirming the panel finding that the Byrd Amendment is inconsistent with the WTO, was adopted. The

United States was subsequently given 11 months (until December 27, 2003) to bring its measure into compliance. The United States failed to comply by the deadline, prompting Canada, along with Brazil, Chile, the European Union, India, Japan, Korea and Mexico to request authorization to retaliate on January 15, 2004. That request was considered at a special Dispute Settlement Body meeting on January 26. The United States challenged the request at that meeting, and the issue has been brought to arbitration, a process that should conclude in the spring of 2004. The Government of Canada has begun consulting domestic stakeholders on lists of products for retaliation.

U.S. Trade Remedy Investigations on Canadian Goods

Wheat

On August 29, 2003, the U.S. Department of Commerce issued affirmative final countervail and anti-dumping determinations in its investigations of imports of hard red spring and durum wheat from Canada. This was followed on October 3 by a split decision on injury by the U.S. International Trade Commission (ITC). The ITC determined that imports of durum wheat from Canada were not injuring U.S. producers but, in a tied vote, it found that imports of hard red spring wheat from Canada were injurious. As a result, no duties were applied on imports of durum wheat but countervailing and anti-dumping duty orders totalling 14.15% were published on October 23 with respect to hard red spring wheat from Canada. Taking issue with the countervailing of certain government programs, the Government of Canada and other Canadian parties launched a NAFTA panel review of the countervail decision. The Canadian Wheat Board has also challenged the injury decision under NAFTA.

Magnesium

The Government of Canada continues to monitor developments surrounding the long-standing U.S. countervailing duties on Canadian magnesium, and it participates in the U.S. Department of Commerce's annual administrative reviews of these countervailing duties. In this context, it must be noted that the government continues to monitor the NAFTA challenges, which were brought against the U.S.

decision in 2000 to extend the application of the duties. To this end, Canada is actively engaged in the NAFTA Extraordinary Challenge filed by the United States on September 24, 2003, contesting a NAFTA Chapter 19 panel decision instructing the U.S. Department of Commerce to sunset the anti-dumping duties on Canadian exports of pure magnesium.

U.S. Farm Act

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

Country-of-Origin Labelling

The 2002 Farm Act created new mandatory country-of-origin labelling (COOL) requirements for beef, lamb, pork, fish, perishable agricultural commodities and peanuts sold at U.S. retail outlets. The legislation sets out highly restrictive criteria that must be met before covered commodities can be labelled as originating in the United States. Guidelines for an interim two-year voluntary period came into effect on October 11, 2002. Country-of-origin labelling is scheduled to become mandatory as of September 30, 2004, for fish and seafood products and as of September 30, 2006, for all other covered commodities.

The mandatory COOL legislation requires U.S. retailers to display country-of-origin information at the final point of sale to consumers for all (imported

and domestic) covered commodities. Canada maintains that the law is fundamentally flawed and places onerous costs on industry while providing no real consumer benefits. Mandatory country-of-origin labelling may also result in price distortions that would hurt all sectors of the red meat industry, and compliance costs could reduce the North American industry's competitiveness on world markets by increasing its overall cost structure. The Government of Canada, in partnership with provinces, industry and U.S. allies, will continue advocacy efforts in the United States to build awareness of the disruption that the country-of-origin labelling provision will cause once it becomes mandatory and to urge that the provision be repealed.

U.S. Trade and Development Act of 2000

The Trade and Development Act (TDA) allows beneficiary countries in the Caribbean and Central America (i.e., Caribbean Basin Initiative or CBI countries) and sub-Saharan Africa to ship apparel made from U.S. fabric and yarns duty- and quota-free into the United States. CBI countries are also permitted to ship knit apparel made with regional fabric up to a specified quantity. A separate cap applies for t-shirts made with regional fabric. The TDA essentially expands the preferences available under other existing U.S. programs.

The Canadian textile industry expressed concerns that the TDA could exacerbate the disadvantages created by earlier programs of a similar nature, since U.S. apparel companies will tend to favour U.S. inputs if they assemble garments in the CBI region. The TDA could also erode the development of the integrated North American market envisioned under NAFTA. U.S. apparel makers that increasingly assemble garments in CBI countries may well be induced to switch to U.S. or regional fabrics made from U.S. yarn. As the TDA was moving through Congress, Canadian industry sought, unsuccessfully, to have Canadian fabrics and yarns treated on the same terms as U.S. fabrics and yarns, arguing that the NAFTA-driven integrated North American market would be undermined by the exclusion of Canadian (and implicitly Mexican) inputs.

The Government of Canada supported the efforts of the Canadian industry to secure the inclusion of Canadian fabrics and yarns in the TDA. Canada continues to monitor the implementation of the TDA.

Electricity

As outlined in the U.S. National Energy Policy (Cheney Report), the U.S. Administration supports greater cross-border trade in electricity and reform of domestic mechanisms affecting trade. Changes to U.S. energy legislation could raise issues with regard to the electricity trade by moving to mandatory reliability standards. Canada continues to seek assurance that the development of any future electricity reliability standards—as well as the creation of an independent, self-regulating, industry-led reliability organization—will be handled jointly by U.S. and Canadian authorities. This approach is reflected in the present draft of the legislation. The Binational Power Outage Task Force established in response to the August 14 blackout will make recommendations in the spring of 2004 that could have implications for the cross-border trade of electricity.

Canada also remains concerned about minimum renewable energy provisions at the state level, which could exclude Canadian-origin electricity generated from renewable resources, notably hydroelectricity, and thus impede access to the U.S. market. In the absence of federal legislation ensuring equal treatment for Canadian renewable electricity, U.S. states may proceed with initiatives that could be inconsistent with existing trade agreements. Canadian advocacy in this sector has raised U.S. awareness of a North American electricity market and the impact of discriminatory measures on the market, which would run counter to our shared energy security and environmental objectives. Although ongoing restructuring may create risks for Canadian electricity suppliers in the U.S. market, opportunities for increased trade are also available, influenced by new markets and market structures, innovation in services and expanding energy demand.

Pipeline Subsidies

Canada is concerned about proposed subsidies for a new pipeline to bring natural gas from Prudhoe Bay, Alaska, to the “lower 48” states. Any floor price or

loan guarantees to industry would affect the economics of a pipeline route, distort energy markets and negatively impact Canadian projects in the Mackenzie Delta.

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

MONITORING DEVELOPMENTS AFFECTING CANADIAN INTERESTS

Canada–U.S. Consultative Committee on Agriculture

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

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

Modernizing the Canada-U.S. Border

Canada and the United States remain firmly committed to implementing the December 12, 2001, Smart Border Action Plan. Deputy Prime Minister Manley and Secretary Ridge met on April 4 and October 3, 2003, to discuss progress on a number of items related to border security and facilitation. Both governments have also announced an agenda for cooperative work in the areas of biosecurity and science and technology, now items 31 and 32 of the Action Plan.

As part of the Smart Border process, Canada and the United States have established a joint program for low-risk companies that expedites the movement of low-risk shipments crossing the border in either direction. The program, known as Free and Secure Trade (FAST), makes many cross-border commercial shipments simpler, cheaper and subject to fewer delays, while enhancing security. FAST became available at 12 high-volume border crossings in December 2003, along with 10 enrolment centres to process applications. Plans are ongoing to have all 22 major commercial crossings FAST-capable by the end of 2004.

The NEXUS program does for people what FAST does for commercial goods. NEXUS Highway facilitates the movement of pre-approved, low-risk frequent travellers and, as of November 2003, is operational

at 13 Canada-U.S. land border crossings. Canada and the United States are also developing a joint NEXUS Air program for frequent flyers, which will be piloted at Ottawa's Macdonald-Cartier International Airport in the spring of 2004.

Responding to the integrated nature of the North American market, Canada and the United States are working closely to align, to the extent possible, customs processes for all commercial shipments by 2005. In April 2003, Canada announced that effective April 2004 all offshore marine cargo must be reported 24 hours prior to being loaded at foreign ports. In July 2003, Canada and the United States announced harmonized rules for reporting cargo using other shipment modes, with these requirements to be phased in as part of the whole border modernization regime. The timelines will require that air shipments be reported four hours prior to arrival or at time of departure for flights of less than four hours. Rail shipments must be reported two hours prior to arrival at the border. Highway shipments destined for the United States must be reported one hour in advance of arrival for non-FAST shipments and 30 minutes pre-arrival for FAST shipments. Highway shipments destined for Canada must be reported one hour in advance of arrival for non-FAST/Customs Self Assessment (CSA) shipments and upon arrival for FAST/CSA shipments.

In December 2003, the U.S. Food and Drug Administration (FDA) implemented two new regulations under the Bioterrorism Act that affected food imports. Like the U.S. Customs regulations noted above, the FDA regulations require prior notice of each shipment of food into the United States, as well as registration with the FDA of all domestic and foreign manufacturers of food products that ship to the United States. Canada has continued to actively encourage U.S. Customs and the U.S. Food and Drug Administration to harmonize their respective requirements for the advance reporting of cargo and conveyances to avoid unnecessary disruption to trade. The final regulations, once fully implemented, have the potential to cause considerable confusion, since they include time frames and reporting requirements that differ from those for goods that fall under U.S. Customs and Border Protection purview. Canada will continue to monitor the implementation of these regulations carefully and advocate for better harmonization.

In April 2003, Canada Customs, U.S. Customs, CN Rail and CP Rail signed a declaration of principles designed to promote security at rail border crossings and to ensure rail access to the United States. The declaration details operational principles and procedures that identify the most

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efficient manner in which to screen cargo and process rail shipments.

Canada worked closely with the United States to implement new security screening requirements for commercial drivers handling the cross-border transportation of explosives, while avoiding undue impact on this trade.

In October 2003, Secretary Ridge announced that under current U.S. policy, the vast majority of Canadian citizens

would not be subject to congressionally mandated entry–exit tracking known as the U.S. VISIT program. This is a significant announcement given that 90% of land border crossings are made by U.S. and Canadian citizens. Advocacy efforts at the highest level played a significant role in achieving this result. Moreover, Canada and the United States have committed to working together to identify ways to implement the U.S. VISIT program that will minimize the impact on border flows.

On November 13, 2003, Canada and the United States successfully followed up on the promise made by President George W. Bush and Prime Minister Jean Chrétien to organize a first meeting of Canadian and American business representatives as part of ongoing consultations on the implementation of Smart Border initiatives.

groups to inform the CCA of their views on trade issues, particularly those that affect bilateral trade.

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

Bioterrorism Legislation

On February 3, 2003, the U.S. Food and Drug Administration proposed regulations to implement the requirement of prior notice of food shipments and registration of domestic and foreign food facilities under the Public Health and Security and Bioterrorism Preparedness and Response Act. The Government of Canada has made numerous high-level representations with regard to the Act since it was first introduced in Congress in late 2001 and passed in June 2002. For instance, the government submitted formal comments on the proposed regulations in April 2003, after consulting with industry, provinces and other stakeholders.

On October 10, 2003, the U.S. FDA issued interim final rules that addressed many of these comments and came into effect on December 12, 2003. In particular, the U.S. FDA established prior notification

timelines that reflect the different modes of transportation, such as truck, rail, air and ship. The U.S. FDA also provided an opportunity to comment on the interim final rules up until December 24, 2003. In response, Canada submitted further comments expressing continuing concerns about the substantive elements and implementation of a number of provisions. For example, there remain many areas in which the interim final rules, as currently interpreted, continue to cause confusion and impose questionable costs on Canadian firms and individuals. The FDA has indicated that it may reopen the comment period in the spring of 2004 for an additional 30 days.

The Government of Canada will continue to consult stakeholders to ensure that concerns are addressed in future comments. Recognizing that some affected parties may still require assistance in understanding the new regulations and how to comply with them, the U.S. FDA and U.S. Customs and Border Protection will be focusing on education and awareness raising until mid-2004. During the transition period, the U.S. FDA will not refuse admission on the sole basis of inadequate prior notice. In addition, it has indicated that final regulations for administrative detention and record keeping will be published in 2004.

Rules of Origin

On January 1, 2003, Canada and the United States implemented measures to liberalize the NAFTA rules of origin applicable to seven products, including alcoholic beverages and petroleum/topped crude oil. The NAFTA Trade Commission (including Mexico) had agreed to these changes in 2002. The changes are currently under consideration by the Mexican Senate and will become effective in Mexico following ratification. These changes, requested by industry associations in Canada, the United States and Mexico, will make it easier for exporters to meet the rules of origin and benefit from duty-free treatment under NAFTA. This will increase the competitiveness of Canadian exporters, in particular the petroleum industry, which exported over \$7 billion worth of petroleum oils to the United States in 2003.

Forest Certification

In the last few years, U.S. demand for certified wood products has continued to grow, fuelled in part by the recent decision of a few large U.S. wood retailers to give preference to certified wood products. The Canadian forest industry is responding to this recent trend through increased certification of their operations and wood products. As of December 2003, more than 57 million hectares of forest land in Canada had been third-party-certified to one or other of the three sustainable forest management certification schemes available in Canada (if certifications to the ISO management system are included, this total rises to over 145 million hectares). Expectations are that 136 million hectares will be certified to such sustainable forestry management schemes by 2006.

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

view to ensuring that certification remains a voluntary marketplace activity and that criteria are consistent with Canadian forest values.

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

Marine Mammal Protection Act

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

U.S. State Taxation Issues

Specific tax issues with respect to Canadian trucking companies in Pennsylvania and New Jersey have been resolved. However, the fact that states are not parties to the Canada-U.S. tax treaty, and therefore can impose income taxes on any entity that conducts business in a particular state, remains an issue. Canadian companies entering the export market may not know that they may be subject to income tax in each state where they do business. Many states are running budget deficits and the collection of taxes from out-of-state businesses presents a potential source of new revenue. Furthermore, the standard by which out-of-state companies reach "nexus" (and are then subject to taxes) has become rather ill-defined in

some states. Although Canadian companies are not being treated any differently from any other U.S. out-of-state companies, Canadian tax structures result in Canadian companies bearing a greater burden than U.S. companies.

IMPROVING ACCESS FOR TRADE IN SERVICES

Financial Services

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

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

Telecommunications

Some Canadian services providers have, in the past, encountered problems such as a lack of transparency in the licensing process in the United States and lengthy delays in obtaining licences to provide telecommunications services in that country. Consequently, Canada will continue to carefully monitor U.S. implementation of its WTO commitments with respect to telecommunications services to ensure that Canadian services providers are subject to timely and transparent licensing procedures.

Shipping

A number of maritime laws (collectively known as the Jones Act) impose a variety of limitations on foreign participation in the U.S. domestic maritime industry. Canada's particular concern relates to the "U.S. build" requirement, which precludes the use of Canadian-built vessels in U.S. domestic marine activities. In addition, several subsidies and other support measures are available to operators of U.S. vessels. These restrictions, coupled with the defence-related prohibitions of the Byrnes-Tollefson Amendment (which precludes the acquisition and repair of ship hull structures by non-U.S. entities), limit Canadian participation in U.S. shipping activities. Canada will continue to use every appropriate opportunity to raise the issue of the U.S.-build requirement dealing with maritime transportation.

Temporary Entry

The facilitation of the temporary entry of business people into the United States in order to promote trade in services, goods and investment remains a priority issue. Canada continues to discuss broader border management issues with the United States through the Smart Border process. NAFTA contains comprehensive temporary entry provisions facilitating the movement of business persons in four categories: business visitors, intra-company transferees, professionals, and traders and investors. There is work ongoing in the NAFTA Temporary Entry Working Group to further facilitate the movement of business persons, particularly actuaries and plant pathologists. In addition, there has been agreement to consider NAFTA coverage for additional information technology professionals.

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

OTHER ISSUES

Government Procurement

Canada will continue to press the United States to further open its procurement markets to Canadian suppliers. Currently, U.S. government exceptions under NAFTA Chapter 10 and the WTO Agreement on Government Procurement prevent Canadian suppliers from bidding on a broad range of government contracts in sectors of key importance. Especially onerous are the set-aside programs for small and minority-owned businesses and the Buy American provisions. In addition, both longstanding and *ad hoc* legislative provisions, such as the fiscal year 2004 Defence Authorization, as well as conditions attached to funding programs, impede access for Canadian suppliers. The need for progress in both assuring and improving access for Canadian suppliers at the U.S. federal, state and local levels remains a key issue for provincial governments as they consider whether to offer to open Canadian provincial procurement markets.

Small Business Set-asides

The Government of Canada remains concerned about the extensive and unpredictable use of exceptions under NAFTA Chapter 10 and the WTO Agreement on Government Procurement for small business set-asides. Canadian suppliers face the ever-present possibility that government markets that they have successfully developed and supplied may be closed through application of the set-aside exception. The definition of a U.S. small business varies by industry, but it is typically an entity with fewer than 500 employees in a manufacturing firm (up to 1,500 employees in certain sectors) or annual revenues of up to US\$17 million for services firms (as determined by the North American Industry Classification System or NAICS) code. Data for fiscal years 2000 and 2001 demonstrated that U.S. federal departments and agencies were not meeting their target of awarding 23% of contract dollars to small business. This resulted in new directives on enforcement of the existing programs and increased pressure on federal agencies by the Small Business Administration to meet small business procurement goals. In addition, the U.S. government requires contractors and major subcontractors on projects worth more than US\$500,000 to include plans to

subcontract work to U.S. small business. Canada is concerned that the use of such subcontracting plans impedes Canadian access to the U.S. market, and it will continue to press the U.S. Administration on this matter. In 2001, 39% of subcontracting procurement dollars were awarded to small business. The goal for 2004 is 40%. This represents a significant restriction of market access for Canadian business.

Buy America

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

Buy America Provisions in Federally Funded Sub-federal Procurement

Buy America provisions are attached by the U.S. federal government to federally funded sub-federal procurement, by making such provisions a condition of U.S. federal government grants to state and municipal organizations. Canada continues to seek improvements to the important U.S. state and municipal procurement markets, including transit, highway and aviation projects.

Almost all large transportation contracts in the United States are federally funded, but they are administered by state and local government or private sector organizations. The Transportation Equity Act for the 21st Century (known as TEA-21) provides funding for these projects through fiscal year 2003. The Federal Highway Administration (FHWA) and Federal Transit Administration grant TEA-21 funds to state and local governments and transportation authorities for transportation projects on condition that U.S. material and equipment are used. Projects funded by the FHWA require all iron and steel products and their coatings to be 100% U.S.-manufactured. Projects funded by the Federal Transit Administration require all steel and manufactured products to have 100% U.S. content

and be 100% U.S.-manufactured. Rolling stock (trains, buses, ferries, trolley cars, etc.) components must have 60% U.S. content, with final assembly occurring in the United States. The codification, in 1998, of a definition of “final assembly,” which was formerly left to the discretion of the procuring organization, has resulted in a further narrowing of opportunities for Canadian suppliers to participate in such projects.

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

State and Local Government Preferences

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

Legislative and Regulatory Changes

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

broadens the use of simplified acquisition procedures. Canada is also concerned about the propensity of U.S. legislators to incorporate restrictive procurement provisions into legislation, such as appropriations acts, on an ad hoc basis. Often relating to specific products, such action appears to be taken without full consideration of the potential for inconsistency with international trade obligations.

Mexico

Overview

As NAFTA celebrates its 10th year in 2004, the benefits of the Agreement are clearly visible. According to Statistics Canada, Mexico is now Canada's sixth most important export market, and fourth largest source of imports. Total two-way trade reached \$14.4 billion in 2003.

January 1, 2003, saw the elimination of most remaining customs duties between the three NAFTA partners. This has increased market opportunities for exports but also led to greater protectionist pressures in Mexico, primarily from groups who believe that they are adversely affected by the market opening.

The pressure led to the signing of a National Agreement on Agriculture, committing the Fox Administration to increasing financial support for Mexican agriculture and to using every instrument at its disposal to protect the agriculture industry, including the increased use of non-tariff barriers. The use of safeguard and anti-dumping investigations is increasing, along with the emergence of new trade disputes.

Mexican mid-term congressional elections in July 2003 resulted in a political setback for the ruling Partido Acción Nacional (PAN), which received only 31% of the vote. The main opposition Partido Revolucionario Institucional (PRI) gained most from the PAN's loss, even though no party won a clear majority in the elections. The administration of President Vicente Fox is facing a relatively divided Congress and will have to negotiate extensively as it attempts to pass legislative reforms through to 2006.

Mexico's policy of strategic trade liberalization has established a wide network of trade agreements, providing preferential access to 32 countries and representing a market of 870 million people. However, negotiations between Mexico and Japan for a free trade agreement, now in the final stages, have run into difficulties. Other than the agreement with Japan and the ongoing negotiations with respect to the Free Trade Area of the Americas and the WTO, the Mexican government's strategy is to focus more on improving benefits under existing agreements than engaging in a new wave of free trade agreements.

According to Mexico's Economy Ministry, in 2002 foreign direct investment in Mexico reached approximately \$18 billion, with Canada placing as the fourth largest foreign investor in that country. Reform of Mexico's electricity and energy sectors would lead to further investment in sectors in which Canada is well placed to compete.

Reforms and market growth, along with the elimination of most customs duties, will lead exporters and investors to focus on priority sectors such as energy equipment and services, agri-food, automotive and auto parts, advanced manufacturing, plastics, environmental technologies, safety and security, and information and communication technologies.

Market Access Results in 2003

- As scheduled under NAFTA, on January 1, 2003, most customs duties were eliminated on trade in originating goods between Canada and Mexico, except for tariffs on beans and corn, which will be eliminated in 2008, and on sugar, dairy, poultry and egg products, which are excluded from the agreement with Canada.
- A number of Mexican non-tariff trade barriers were identified and addressed, including measures relating to dry beans, cheese, meat inspection and points of entry for breeding swine.
- A Work Plan 2003–2004 was signed by Canada and Mexico for the resumption of trade in seed potatoes from Alberta.
- With respect to bovine spongiform encephalopathy (BSE), in August 2003, Mexico announced a reopening of the border for boneless beef and certain other products.

- Canada, the United States and Mexico signed a non-binding trilateral arrangement regarding documentation requirements for exports of living modified organisms intended for direct use as food or feed, or for processing under the Cartagena Protocol on Biosafety.
- The Border Clearance Representative has been active in assisting Canadian agri-food products exports by facilitating entry into Mexico, mainly via the Nuevo Laredo cross-border entry point.
- The signing of a mutual recognition agreement (MRA) by the accounting profession was completed. The MRA on engineers is near completion.
- Canada and Mexico achieved a satellite coordination agreement (a memorandum of understanding) to resolve a dispute between Mexico's SATMEX and Telesat Canada, avoiding a lengthy legal dispute that would have resulted in important financial losses to the two companies. The problem would not have been resolved without the intervention of both governments.

Canada's Market Access Priorities for 2004

- Achieve full market access for Canadian beef and live animals to Mexico.
- Continue representations for a complete cross-Canada resumption of exports of seed potatoes to Mexico.
- Continue vigorous representations to ensure that the proposed Ministry of Health mandatory technical regulation (NOM 194) on meat is not trade-restrictive or in violation of Mexico's international trade obligations.
- Monitor Mexican Biosafety Legislation to ensure that Canadian interests are not adversely affected.
- Continue to monitor the high-fructose corn syrup/sugar dispute between Mexico and the United States to ensure that Canadian interests are protected.
- Monitor the opening of the U.S.–Mexico border to cross-border trucking services, while providing assistance to Canadian transport companies and ensuring access for Canadian fleets.
- Monitor customs-related developments at the U.S.–Mexico border that may impact on Canadian exporters and provide timely assistance to Canadian companies with regard to exporting across this border.

- Support and promote optimum use of the services of the Border Clearance Representative for agri-food products, as well as explore the possible expansion of such services to other trade sectors.
- Assist Canadian suppliers with respect to the application of NAFTA Chapter 10 (Government Procurement) by Mexican government agencies and state-owned enterprises, as well as monitor and lobby the Mexican government with respect to any identified systemic problems with Mexican government procurement.
- Participate in discussions to address Mexican concerns about the integrity of tequila bottled in foreign countries and advocate reversal of Mexico's proposed regulatory amendment requiring all tequila to be bottled in Mexico.
- Monitor key aspects of Mexican domestic policy that may have an impact on Canadian market access as well as proposed mandatory technical regulations and their implementation.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

On May 20, 2003, Mexico imposed a ban on imports of Canadian cattle, beef and their products due to the detection of a cow infected with bovine spongiform encephalopathy in Alberta. Canada has maintained close communication with the Mexican authorities to inform them about developments in the BSE investigation and the new measures implemented in Canada related to the BSE case. After several high-level representations from Canada and technical discussions with Canadian officials, on October 1, 2003, Mexico reopened the border to imports of Canadian boneless beef and certain other products. Canada has been working with Mexican authorities to include other beef products and live animals. Exports of Canadian boneless beef have already resumed under the new sanitary requirements agreed between Canada and Mexico. Mexico has indicated that it is willing to reopen the border to imports of Canadian breeding cattle once the U.S. Department of Agriculture confirms that this action will not result in restrictions on Mexican exports to the U.S. market.

Seed Potatoes

In January 2003, Mexico imposed a ban on imports of Alberta seed potatoes for alleged phytosanitary reasons. After several rounds of technical discussions, on November 4, 2003, Mexico and Canada signed a work plan to resume seed potato exports from Alberta to Mexico for the 2003–2004 shipping season. In 2001, Mexico imposed a ban on imports of seed potatoes from New Brunswick and Prince Edward Island, also for alleged phytosanitary reasons. Canada and Mexico could not reach an agreement to resolve this dispute, and the matter was referred to a third-party arbitrator through the North American Plant Protection Organization. The arbitrator's report was received in early 2004 and is being reviewed by both countries.

New Mandatory Technical Regulation for Meat

The Mexican Ministry of Health (Salud) is proposing a new mandatory technical regulation (NOM 194) that would establish new sanitary provisions for domestic and imported meat. One of the main concerns regarding the proposed NOM is that Salud is requiring zero tolerance for *salmonella* spp. in uncooked meat, a requirement that is not based on sound science and is inconsistent with international sampling protocols. There are also concerns that Mexico could be violating its international trade obligations, since imported meat would be tested at the border at additional cost, while domestic meat would be tested without cost. Furthermore, the proposed regulation would require Mexican importers of meat products to obtain an import permit from Salud, which would be burdensome and costly. Canada has made several representations before Salud to discuss its concerns about the proposed regulation for meat. Salud is currently revising the language of the proposed regulation to ensure that it does not apply rules that are discriminatory to foreign meat suppliers. Canada will continue working with Salud in order to ensure that the proposed NOM does not adversely affect Canadian meat exports to Mexico.

Regulation of Biotechnology

Mexico is currently establishing a legal framework for the regulation of biotechnology and the products of biotechnology (e.g., food based on genetically modi-

fied organisms). Canada has been actively lobbying Mexican legislators, as well as Mexican authorities, expressing concerns about the new framework and offering to share information regarding Canada's own biotech regulatory experience. A draft Biosafety Law was tabled in the Mexican Senate on November 2002. In December 2002, an on-line public forum was launched to facilitate feedback on the draft Biosafety Law, and Canada submitted formal comments to this forum. The Biosafety Law passed the Senate in April 2003. However, the Lower House committees did not complete their revision of the law before the end of the spring 2003 congressional session. Consequently, there is some uncertainty regarding the time frame for approval of the Mexican Biosafety Law, though it may be approved by Congress in 2004.

North American Biotechnology Initiative

In October 2002, Canada, Mexico and the United States established the North American Biotechnology Initiative (NABI), a forum for ongoing dialogue among the three countries on biotech-related issues. The objective of this initiative is to identify and resolve issues of common interest related to biotechnology and to identify areas for further cooperation, such as scientific research, market access and regulatory regimes. The three countries agreed to create different working groups to deal with these issues and to report on their achievements to a steering committee at least once a year.

Border Clearance

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

clearance delays and expediting the movement of Canadian agri-food products across the Mexican border. This is a pilot project, which will expire in 2004 unless additional funding can be identified. Discussions are taking place to expand the mandate of the Border Clearance Representative to other products.

High-Fructose Corn Syrup

On January 2, 2002, the Mexican government introduced a 20% tax on beverages containing sweeteners other than cane sugar. This effectively halted Canadian exports to Mexico of high-fructose corn syrup (HFCS), as beverage manufacturers in Mexico switched to using cane sugar as their principal sweetener. Canadian exports of HFCS to Mexico had increased steadily in recent years and were expected to rise further. The tax has adversely affected Canadian corn producers, and questions have been raised regarding its consistency with Mexico's international trade obligations. The Government of Canada has made several representations to the Mexican government outlining its concerns regarding the tax and will continue to follow the issue closely and intervene as necessary. Under NAFTA, two U.S. companies affected by the tax have filed requests for the institution of arbitral proceedings to claim damages for expropriation. In December 2003, Mexico's Chamber of Deputies (with subsequent Senate approval) voted to maintain the 20%, despite lobbying by the Economy Ministry and by President Fox to have it rescinded.

IMPROVING ACCESS FOR TRADE IN SERVICES

Professional Services

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

Council of Professional Engineers has contacted the Canadian provincial engineering associations in this regard, and so far eight provincial/territorial associations have given their approval. The associations of Quebec and Ontario have not yet approved.

Mexico's professional association has given its approval, and the Mexican Education Ministry is working to finalize the language test and other requirements for which it is responsible. The Texas Professional Association will give final consideration to the Operational Procedures Document at its meeting in May 2003. Associations in other U.S. states have also signalled their interest.

Representatives of the Canadian Institute of Chartered Accountants and their Mexican and U.S. counterparts have signed an MRA in Washington, D.C., that recognizes the professional qualifications of chartered/certified accountants in their respective jurisdictions.

Representatives of the Canadian Council of Land Surveyors and their Mexican and U.S. counterparts have approved a draft MRA and are working toward a final agreement.

At the NAFTA Commission meeting in October 2003, ministers approved administrative measures proposed by the NAFTA Temporary Entry Working Group to add plant pathologists and actuaries to the NAFTA list of professions allowed temporary entry.

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

OTHER ISSUES

Government Procurement

Procurement by Mexican entities listed in NAFTA Chapter 10 is governed by the disciplines of this chapter. Mexico may exclude up to US\$1.2 billion per year of government procurement from the disciplines of NAFTA Chapter 10. In addition, Mexico may exclude up to US\$300 million for the state-owned oil (PEMEX) and electricity (CFE) firms. These exemptions reduce the opportunities available for Canadian exporters seeking to bid on

procurement by Mexican government agencies and public companies. Canada will continue to assist Canadian exporters on a case-by-case basis and to monitor Mexico's application of these exemptions. Canada remains concerned that Mexico has not demonstrated its compliance with these limits on exclusions. Canada continues to press Mexico for relevant statistical and other information to demonstrate that these limits have not been exceeded.

Mexican Initiative to Require Bottling of Tequila in Mexico

Mexico is preparing a mandatory technical regulation (NOM) that would require all tequila (which is produced only in Mexico) to be bottled in Mexico. At present, some tequila is exported to other markets in bulk, where it is bottled and sold as Mexican tequila. The majority (75%) of tequila exported to Canada and the United States is shipped in bulk. Moreover, Canada is the fourth most important importer of bulk tequila, after the United States, Germany and France. There has been significant growth in the tequila market internationally over the past decade.

Existing tequila trade between Mexico and Canada is mutually beneficial and is expected to grow significantly in the near term. Introduction of this measure will interfere with both existing and anticipated commercial arrangements and negatively impact on the anticipated growth.

Mexican industry claims that the quality of some tequila that is bottled abroad is highly suspect, with disreputable foreign bottlers diluting and lowering the quality of the tequila and damaging its reputation.

Shipments in bulk for bottling in destination countries is common business practice in the beverage alcohol industry. There are various safeguards in place to ensure product quality and integrity.

There have been three trilateral (Canadian, U.S. and Mexican governments and industry) meetings to discuss this issue, most recently in February 2004. Solutions are being sought that would enable Mexico to abandon the proposed NOM and to accept increased diligence by regulatory agencies in importing countries to ensure the integrity of tequila in the marketplace.

Trade Data Reconciliation

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

Free Trade Area of the Americas

The Free Trade Area of the Americas (FTAA) was conceived in principle in December 1994 at the inaugural Summit of the Americas in Miami. At the second Summit, in Santiago in April 1998, the leaders of the 34 democratic countries of the Americas launched the negotiations toward a hemisphere-wide free trade area.

The proposed FTAA is an integral part of the larger Summit of the Americas process. The FTAA complements the Summit objectives of strengthening democracy, promoting human rights and finding ways to address a range of social and economic issues through hemispheric cooperation. The FTAA is perhaps the most visible element of the Summit process, but its principal objectives of growth and development through enhanced economic integration are ultimately intended to reinforce the Summit's broader objectives. Canada hosted the Third Summit of the Americas in Quebec City in April 2001, and it continues to play a significant role in the broader Summit process. Most notably, Canada helped forge consensus among the 34 members of the Organization of American States on the holding of a Special Summit of the Americas, which took place January 12 to 13, 2004, in Monterrey, Mexico.

The FTAA negotiations could result in the creation of the world's largest free trade area, with over 830 million people and a combined gross domestic product of more than \$20.1 trillion. In addition to liberalizing trade in goods, the FTAA has the potential to secure improved market access commitments in the services sector and to establish stronger investment protection measures throughout the hemisphere.

The FTAA will build on Canada's existing free trade ties with the United States, Mexico, Chile and Costa Rica, and its expanding links elsewhere in the hemisphere, allowing Canada to take full advantage of emerging hemispheric markets. The FTAA will coexist with pre-existing agreements, such as the North American Free Trade Agreement. This means that Canada's trade with the United States and Mexico will continue to be governed by NAFTA, and the FTAA will substitute in these relations only if all three parties agree. Excluding Canada's NAFTA partners, the Americas are now the destination for \$3.4 billion of Canadian goods exports a year. In addition, the stock of Canadian direct investment in the region is in excess of \$54 billion, representing 13% of Canada's total outward investment in 2003.

The FTAA negotiations, which are scheduled to conclude by January 2005, are proceeding on two simultaneous tracks. The first is a general negotiation focusing on rules and commitments, including issues of an institutional nature. The second track deals specifically with market access for agricultural and non-agricultural goods, investment, services and government procurement.

With respect to the market access negotiations, in February 2003, Canada presented, and received from all countries, initial market access offers in agricultural and non-agricultural goods. In addition, Canada presented, and received from most countries, initial market access offers in services, investment and government procurement. Countries were invited to request improvements to the initial market access offers in June 2003. The process for improving the initial market access offers commenced in July 2003.

On November 20, 2003, the ministers responsible for trade in the hemisphere met in Miami for the eighth FTAA Ministerial Meeting. At this meeting, trade ministers reaffirmed their commitment to conclude

by January 2005 a comprehensive and balanced agreement that will expand prosperity and foster economic growth throughout the hemisphere. Countries are to negotiate an integrated set of obligations and benefits in each of the existing nine areas (market access; agriculture; services; investment; government procurement; intellectual property; competition policy; subsidies, anti-dumping measures and countervailing duties; and dispute settlement). Additional, more ambitious obligations could be negotiated simultaneously among countries that so choose. Trade ministers also agreed to release the third version of the negotiating text in the four official languages of the FTAA: English, French, Portuguese and Spanish. Although Canada did not achieve all that it had sought, it did succeed in narrowing differences on the way forward for the final phase of the negotiations.

Market Access Results 2003

- Progress was achieved throughout the draft FTAA Agreement, as reflected in the third draft of the consolidated text released by FTAA trade ministers in November 2003.
- Market access negotiations progressed on the basis of initial offers for goods, tabled by all countries in February 2003.
- Market access negotiations progressed on the basis of initial offers for services, investment and government procurement, tabled by most countries in February 2003.
- Ministers agreed to maintain the established timetable for concluding the negotiations.
- Work advanced on the Hemispheric Cooperation Program, including through a \$7-million grant to the Inter-American Development Bank and the Organization of American States from the Canadian International Development Agency, which will provide trade-related technical assistance and capacity building to enable smaller economies to participate in the FTAA.
- Further progress was made relating to transparency and the participation of civil society, for example, there were improvements to the quality and frequency of information made available to the public, as well as increased interaction with civil society through special thematic meetings.

- Ministers recognized the linkage between the Summit of the Americas process and the FTAA, particularly with respect to labour, the environment and cultural diversity.

Canada's Market Access Priorities for 2004

- Develop and implement a negotiation framework, as instructed by ministers, that will advance work on the integrated draft text of the FTAA Agreement and the market access negotiations for goods, services, investment and government procurement.
- Pursue the conclusion of a high-quality, comprehensive Agreement.
- Seek agreement with other countries on a process to establish parallel agreements on labour and the environment in the context of the FTAA.
- Continue to pursue measures that increase the transparency and participation of civil society in the FTAA, including those of an institutional nature.
- Build support among FTAA participants for a specific reference to the Organization of American States' Democratic Charter in the FTAA.

Mercosur

Overview

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

Despite widely publicized internal problems within Mercosur, both Brazil and Argentina consider Mercosur's political and economic achievements to be substantial, and their recently elected presidents have renewed their commitments to strengthening it. There are several challenges to full economic integration, including the Argentine recovery, and Mercosur continues to experience difficulties in restructuring itself into an organization that will be able to take on commitments and implement them as a bloc. Uruguay remains concerned because commitments to free trade and the reduction of trade barriers within the bloc have not been fully implemented. On the other hand, Brazil's improved country risk and fairly stable exchange rate in 2003 could contribute to a more stable bloc and support its negotiating positions. In mid-2003, Brazil proposed an initiative to set concrete deadlines for converting Mercosur from an imperfect customs union to a common market.

Mercosur is engaged in an expansive external trade agenda that includes negotiating closer ties with other developing countries such as China, Egypt, India and South Africa. Brazilian President Lula da Silva's priorities since he assumed office in January 2003 have been to strengthen Mercosur as a political and economic bloc and then to further its ties within South America. The Caribbean Community (CARICOM) has also requested that Brazil consider a market access/tariff negotiation. Since its inception, Mercosur has negotiated and entered into free trade agreements with Chile, Bolivia and Peru and a limited sectoral market access agreement with Mexico.

Canadian exports to Mercosur countries totalled \$974 million in 2003, a 17% increase from the previous year. Canada's main exports to Mercosur are paper products, potash, wheat, telecommunications equipment and information technology, aircraft parts, petroleum products, machinery, malt, minerals, plastics, rolling stock and pharmaceuticals. Canadian imports from Mercosur members totalled \$2.5 billion in 2003, for an increase of 10% from the previous year.

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

Trade and Investment Cooperation Arrangement

Signed in June 1998, the Canada–Mercosur Trade and Investment Cooperation Arrangement (TICA) laid the foundation for enhanced bilateral trade and investment and established a framework for collaboration in the FTAA, the WTO and the Cairns Group. The first Consultative Group meeting called for under the TICA took place during the FTAA meeting in Toronto in November 1999. At that meeting, a proposal was made to form two committees: one to study customs and technical cooperation, and a second to study best practices in trade development and promotion.

In addition, it was agreed that the Business Advisory Council established by the TICA would provide a mechanism for business representatives to provide input directly into the Canada–Mercosur trade and investment relationship. Canada has held meetings with business representatives to seek input on the most beneficial activities that might be engaged in under the TICA.

On November 21, 2001, the TICA Consultative Group, consisting of senior trade officials, met in Montevideo, Uruguay, to determine the next steps of a Canada–Mercosur action plan under the TICA. The group agreed on a work plan covering issues related to trade development, agriculture (sanitary and phytosanitary and regulatory measures), connectivity and ways of strengthening customs procedures. Although work exchanges have continued on connectivity, and preparatory work is being done on customs cooperation, the next meeting has not yet been scheduled. With respect to agriculture, work is currently done mainly at the bilateral level.

Canada continues to work with Mercosur on improving our trade and investment relationship through the FTAA process.

BRAZIL

Overview

Canadian exports to Brazil totalled \$881 million in 2003, an increase of 15% over the previous year. Major exports included fertilizer, mineral fuel, machinery and paper. Canadian imports from Brazil

totalled \$2 billion in 2003, up 4.5% over 2002. Major imports included vehicles, iron and steel, machinery, sugar and other food items. Canadian direct investment exceeded \$4.3 billion in 2002.

Since the January 2003 inauguration of the government of President Luiz Inacio Lula da Silva, Brazilian trade policy has placed more emphasis on achieving integration with the rest of South America. The new administration has also demonstrated a strong interest in enhancing trade and political relations with the rapidly industrializing economies of China, India and South Africa and with less-developed economies in Asia and Africa.

Brazil has further demonstrated its commitment to monetary and fiscal policy reforms to ensure the continued support of the International Monetary Fund (IMF) and to alleviate concerns among international investors regarding Brazil's financial stability. Primary fiscal surpluses are high (4.5% of GDP), inflation is on target at 8.5%, the rate of growth is forecast to increase from 0.5% in 2003 to 3.5% in 2004, and the employment rate increased by 3.5% in 2003. A new standby financing arrangement with the IMF (totalling US\$7.5 billion) was announced on December 9, 2003, for social and development programs from 2004 to 2007, a move that has been favourably received by the financial markets. The ratio of U.S.-dollar-linked debt to total public debt is 23% (US\$55 billion), and Brazil is working on reducing this proportion.

In November 2003, Brazil unveiled its long-awaited Guidelines for Industrial Policy, Technology and Foreign Trade. This policy is intended to increase economic and developmental efficiency, innovation, exports and the diffusion of technologies with the greatest potential in international market. The four sectors of focus are semiconductors, software, pharmaceutical and medicinal products, and capital goods. Although the mechanisms of the plan are still undefined, it is clear that there will be some form of domestic support and probably export support. It is still too early, however, to know whether these programs will have a trade-distorting effect. The Guidelines provide for export support with financing, simplified procedures and tax breaks, as well as support for entry into international supply chains. The Guidelines state that increased export activity

depends clearly on international negotiations focused on removing tariff and non-tariff barriers (such as sanitary standards, which are becoming more significant).

In the context of the WTO, Brazil is a leader of the G20, a group of developing economies organized in response to a proposal on agriculture prepared by the United States and European Union in advance of the Cancun Ministerial Conference in September 2003. The G20 prepared its own paper on the reduction of domestic support programs and the elimination of export subsidies. In its proposal, the G20 called for developed countries to offer far greater market access, while offering little improvement in access for these nations to developing countries' markets in return. Since the setback at Cancun, Brazil, among other countries, has been searching for a way to restart the discussions. Brazil hosted a meeting of G20 ministers in December 2003, which was attended by the following countries: Argentina, Bolivia, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, the Philippines, South Africa, Tanzania, Venezuela and Zimbabwe.

Market Access Results in 2003

- Brazil approved a number of Canadian requests for pest risk assessments for plant products in 2003.

Canada's Market Access Priorities for 2004

- Continue representations concerning the levying of duties and charges on imports from Canada that are not consistent with Brazil's international trade obligations; an example is Brazil's Merchant Marine Renewal Tax, which imposes a 25% tax on the ocean freight of imported goods.
- Continue representations seeking changes to Brazil's newly implemented restrictions on the maximum levels of quarantinable non-regulated pests on seed potatoes, which Canada believes are trade-restrictive and inconsistent with international principles and practices.
- Continue monitoring how Brazil applies its customs valuation regime on Canadian imports to ensure that its implementation is consistent with Brazil's international trade obligations.
- Monitor closely the implementation of Brazil's Normative Instruction 34, which requires pest

assessments for all plant products imported into Brazil, in order to ensure that Canada's historical trade is not disrupted.

- Continue to pursue approval of outstanding Canadian requests for pest risk assessments.
- Promote dialogue in the Free Trade Area of the Americas and World Trade Organization negotiations.
- Continue representations aimed at removal of Brazil's BSE measures on imports from Canada.

IMPROVING ACCESS TO TRADE IN GOODS AND SERVICES

Merchant Marine Renewal Tax

Canada has raised concerns about the imposition of duties and charges on imports that are not notified in Brazil's WTO schedule, such as the Merchant Marine Renewal Tax with its potential trade-restricting and trade-distorting effect. The amount of this tax is 25% of the ocean freight on imported goods. Since the tax does not apply to domestically produced goods, or to goods imported over land from neighbouring countries, Canada considers that it violates both the national treatment and most-favoured-nation obligations of the General Agreement on Tariffs and Trade (GATT). Also, in many cases where Brazil's applied tariff is within the level of its WTO binding, the combination of the Merchant Marine Renewal Tax and the applied tariff exceeds the WTO binding.

Customs Valuation

On February 13, 1998, Brazil published Decree No. 2.498/98, implementing the Customs Valuation Agreement of the World Trade Organization. The agreement was further regulated by the adoption of two Normative Instructions (16/98 and 17/98) issued by the Brazilian Revenue Department, which establish that all goods are subject to verification and that the process is a selective one. The verification process takes into consideration the declared price of the merchandise, the integrity of the documents presented, freight costs, costs related to loading and unloading the merchandise, and costs of freight insurance. In addition, Brazilian authorities may request further documentation from the importer to confirm the declared price of the merchandise.

In practice, 80% of goods enter Brazil under the automatic licensing system (SISCOMEX) introduced in 1997. The remaining 20% of goods (normally, goods subject to health and phytosanitary requirements) require approval and are reviewed by the respective decision-making ministries. While Brazil has hailed SISCOMEX as a significant step forward in streamlining customs procedures, many current and potential exporters find the system cumbersome and inflexible.

Canada will continue to monitor how Brazil applies its customs valuation regime on Canadian exports to ensure that this is consistent with Brazil's international trade obligations.

Bovine Spongiform Encephalopathy

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

Seed Potatoes

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

Brazil's requirement to include quarantinable non-regulated pests among export certification criteria is inconsistent with internationally agreed principles and practices. Canada has continued to make representations, both bilaterally and at the WTO SPS Committee, and will continue to press Brazil for a resolution.

Tariff on Wheat

In 1996, Brazil notified WTO members that it had withdrawn a market access concession from its WTO schedule, under which 750,000 tonnes of wheat

entered Brazil duty-free, and would begin applying a duty, currently set at 12.5%, to all wheat imports. As the largest non-preferential exporter of wheat to Brazil at that time, Canada notified WTO members of its claim of “principal supplying interest” in order to safeguard its right to compensation from Brazil for the non-implementation of this concession and the raised tariff. Brazil’s view is that there is no compensation owing because Canada’s market share remained unaffected. Canada continues to believe that Brazil has an obligation to fulfill regarding Canada’s claim and, in 2003, reiterated its request to Brazil.

Regional Aircraft Dispute

Canada and Brazil have been engaged in negotiations and WTO litigation for the last seven years in an attempt to eliminate subsidies in financing for regional aircraft sales. The WTO has granted both countries authorization to retaliate, but this has not been utilized because both countries prefer to negotiate a long-term resolution to the issue.

Over the past year, negotiations have picked up pace and have become increasingly substantive. The key element of any final agreement, from Canada’s perspective, remains the establishment of a financing framework for regional jet aircraft that eliminates government-supported financing from an airline’s purchasing decision. A couple of contentious areas remain, and technical work is under way to try to bridge the differences. The Canadian and Brazilian lead negotiators met again early in 2004. While work remains to be done before an agreement is reached, the parties are slowly converging on a common position.

ARGENTINA

Overview

Two years after Argentina’s dramatic default and after its currency devaluation, there are increasing signs that the economy is recovering. Output has stopped falling. Consumer confidence is higher than at any point in the last three years. Unemployment has fallen and banking deposits continue to increase. The Argentine government has completely lifted the freeze on bank deposits. However, consumption continues to lag in Argentina. Formidable difficulties remain

in the financial system. Argentina’s institutions need to be reformed. Repaying the international financial institutions and holders of bonds in default is also high on the government’s list of priorities. Argentina and the International Monetary Fund have agreed to a three-year deal that will reschedule US\$21 billion of multilateral debt, US\$12.5 billion of which is owed to the Fund. Building on increased exports, investments and domestic demand, the economy grew by 5.5% in 2003, according to estimates by the Argentine government. The country’s economic growth is expected to be between 4% and 4.5% in 2004.

The World Bank and the Inter-American Development Bank are both expected to release four- to five-year country strategies in early 2004, each with projected lending of US\$5 billion, and each with a focus on infrastructure and “competitiveness”—referring to improved domestic economic efficiencies.

Canada and Argentina signed a Foreign Investment Protection Agreement (FIPA) in 1991. It provides a mechanism by which investors can seek recourse to international arbitration to settle disputes based on the provisions of the FIPA, which in this case includes formal domestic procedures as a first step. Canada also has a Double Taxation Agreement with Argentina and a Trade and Investment Cooperation Arrangement with Mercosur.

Canada is the fifth largest investor in Argentina, with investments in petro-chemicals, mining, printing, publishing and agro-industry. Official Canadian direct investment in 2002 totalled \$1.4 billion, and this amount was increased by significant increments throughout 2003. A recent wave of Canadian investments in the Argentine mining sector has occurred, and the energy and capital infrastructure sectors may also offer potential for further Canadian investment. Although additional investment opportunities exist in these sectors, the extent to which they can be explored depends on Argentina’s recovery and its government’s capacity to establish a proper and stable environment for investors.

The nascent Argentine economic recovery could provide the impetus for sustained growth in bilateral trade with Canada, which shrank significantly in the two years preceding 2003. In 2003, bilateral trade increased to \$454 million, up from \$367 million in

2002. Canadian exports increased to \$77 million (up 75% from a year earlier) after they had plummeted to \$43.9 million in 2002, while imports increased to \$377 million, or 17% from \$322.8 million in 2002. According to the Argentine Statistics Institute, INDEC, Canada's market share of total Argentine imports has held relatively steady at 0.79% in 2003 (from 0.81% in 2002), despite a surge in Brazil's market share over the same period (from 31% in 2002 to 39% in 2003).

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing Argentina's BSE measures on imports from Canada.
- Continue discussions with Argentina to restore access for Canadian pork.
- Support the Canadian business community in Argentina, particularly in the area of investment, with a focus on promoting judicial security and financial stability in the mining investment regime.
- Promote dialogue in the Free Trade Area of the Americas and World Trade Organization negotiations.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of case of bovine spongiform encephalopathy, Argentina temporarily suspended all imports of Canadian products of ruminant origin, including bovine semen and embryos. Canada has kept all its trading partners, including Argentina, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

CHILE

Overview

The Chilean economy is in good shape, with solid institutional foundations and basic macroeconomic variables in balance. Chile's economy should benefit from strengthened confidence and new opportunities arising from Chile's free trade agreements with the European Union, South Korea and the United States,

which will continue to open markets to Chilean goods in 2004. GDP growth accelerated to more than 3% in 2003 and is projected to reach 5% in 2004 as the global economy recovers. Mining was the most dynamic sector on the supply side in 2003, due to double-digit growth in copper output. Chile's long-term foreign currency debt is the best-rated in Latin America and has been considered investment-grade by all credit-rating agencies since 1992.

Canada views Chile as a key regional partner. Chile has one of the most open and stable economies in Latin America. Canada has been at the forefront of partnering with Chile in establishing key trade links and was the first G8 nation to sign a Free Trade Agreement (FTA) with Chile. The Canada-Chile FTA (CCFTA), implemented in 1997, has been the cornerstone of our trade and investment relations; it is complemented by separate agreements on labour and environmental cooperation. The set of predictable and transparent rules established by the CCFTA have proven effective in reinforcing our increasingly important bilateral trade and investment relationship. Canada remains committed to the full implementation of the CCFTA and to identifying additional work under the Agreement to further trade and investment relations.

Total two-way trade between Canada and Chile has nearly tripled over the past decade, from \$421 million in 1993 to \$1.2 billion in 2003. Since implementation of the CCFTA in 1997, two-way trade has increased by 67% from \$718 million.

The leading Canadian exports to Chile are cereals (wheat), machinery, paper and paperboard, electrical machinery, mineral fuel and oil, and plastics. Canada's leading imports from Chile are fruits (particularly grapes), copper and copper articles, copper ores, wood, wine, fish and seafood. The major sectors of opportunity for Canadian companies in the medium term include equipment and services in the following areas: mining and metals, energy, environment, information technology and telecommunications, construction and building products, transportation and infrastructure, and plastics. Many Canadian companies consider Chile to be a gateway to neighbouring markets.

Chile remains committed to foreign investment, and investment legislation has been incrementally liberalized since 1974. The flexibility of the well-educated workforce is a major attraction to foreign investors, and international capital will continue to flow into export-oriented industries such as mining, manufacturing and agriculture. However, plans to levy royalties on profits made by companies in the mining sector are raising concerns among foreign companies in the sector. Restrictions exist for investment into the fisheries sector.

Canadian investment in Chile has increased sharply, making Canada Chile's second largest investor after the United States. Canadian foreign direct investment in Chile totalled \$5.8 billion in 2002, according to Statistics Canada. Although primarily concentrated in the mining sector, important investments have also been made in energy, financial services, equipment manufacturing and communications.

The CCFTA and the Canada–Chile Double Taxation Agreement significantly improved the overall legal regime applying to Canadian investors in Chile by providing them with additional benefits and guarantees unprecedented outside the NAFTA context. The CCFTA ensures that Canadian investors will be treated in a similar fashion to Chilean investors and will receive benefits equivalent to those Chile may grant to other countries in future agreements.

Market Access Results in 2003

- A direct air link between Canada and Chile was re-established in December 2003, with flights to operate regularly between the two countries.

Canada's Market Access Priorities for 2004

- Seek a satisfactory resolution to a customs valuation and tax issues that have affected Canadian auto exporters.
- Encourage engineering professions in both countries to complete the negotiation of a Mutual Recognition Agreement.
- Commence negotiations on government procurement to broaden the CCFTA.
- Hold a first meeting of the CCFTA Sanitary and Phytosanitary Committee and begin work on a longer-term structure for managing these issues.

- Continue representations aimed at the removal of Chile's BSE measures on imports from Canada.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Automobiles

The Supreme Court of Chile ruled on April 1, 2003, that the 85% tax applied by the Chilean government on automobiles of over \$16,232 in value was equivalent to a tariff and thus contravened the CCFTA. Canada's position is that since Chile is applying an import duty that is not referred to in Chile's schedule of commitments under the CCFTA or the GATT 1994, it is acting in violation of its obligations under both agreements. In November 2003, Chile amended its domestic law so that commencing January 1, 2004, the luxury tax will be phased out according to the timetable agreed to under the Chile–U.S. FTA. This will provide vehicles from Canada with treatment on par with that accorded to vehicles imported from other countries, including the United States.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Chile issued a ban on imports of bovines and bovine products from Canada. Canada has kept all its trading partners, including Chile, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Pet Food

In September 2003, a very stringent certificate for exporting pet foods was agreed upon between the Canadian Food Inspection Agency and its counterpart in Chile, the Servicio Agrícola y Ganadero. Further discussions have made possible a less-restrictive certificate, which will allow most companies that were exporting pet foods to Chile prior to the discovery of the BSE case in Alberta to resume exports.

Andean Community

In August 2002, Canada and the Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) announced that they had agreed to begin exploratory discussions toward a possible free trade agreement. Government officials met on two occasions, most recently in Ottawa in May 2003, to exchange information and views on the scope of possible free trade negotiations. The Government of Canada launched extensive domestic consultations in November 2002 with business, citizen-based organizations and individual Canadians, as well as with provincial and territorial governments, to obtain advice and views on priorities, objectives and concerns that would help define the possible scope of a free trade agreement with these countries. The majority of responses received have been supportive of eventual free trade negotiations with the Andean Community. Additional exploratory discussions with the countries of the Andean Community would be necessary before negotiations could commence. Canada and the Andean Community signed a Trade and Investment Cooperation Arrangement (TICA) in May 1999.

VENEZUELA

Overview

Venezuela is an important commercial partner to Canada, with bilateral trade totalling just over \$1 billion in 2003. Canada exported \$300 million to Venezuela in 2003 and had imports of \$709 million. This makes Venezuela Canada's fourth largest trading partner in South America, down from second largest in 2002. This decline is mainly due to the deteriorating economic situation in Venezuela and the February 2003 imposition of foreign exchange controls, which is affecting all foreign suppliers. The main Canadian exports to Venezuela are wheat, motor vehicle parts and accessories, machinery, paper, electrical machinery, vegetables and wood pulp. Canada's imports from Venezuela consist of petroleum products, bitumen and asphalt, semi-finished iron for motor vehicle parts, iron and steel products, chemicals and vehicles.

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

A Foreign Investment Protection Agreement between Canada and Venezuela was signed in 1997 and came into force in January 1998. Negotiations on a Double Taxation Agreement were completed in July 2001; the Agreement has been approved by the Venezuela National Assembly and awaiting the President's signature since 2002.

Canada's Market Access Priorities in 2004

- Continue to lobby for final sign-off on the Double Taxation Agreement.
- Continue making representations to Venezuela seeking elimination of its discretionary import licensing system for agricultural products.
- Continue encouraging Venezuela to resolve investment disputes in accordance with the principles of transparency and the due process of law.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Foreign Exchange Administration Commission

In January 2003, the Venezuelan government imposed foreign exchange controls that affect virtually all exporters of goods and services to Venezuela. These controls make it nearly impossible for Venezuelan importers to legally access foreign exchange for goods and services that are not on the priority import lists administered by the Foreign Exchange Administration Commission (CADIVI); consequently these controls act as a non-tariff barrier to trade. For those transactions approved by CADIVI, Canadian exporters face long delays in receiving payment from Venezuelan importers, because of bureaucratic delays in accessing foreign currency under the current regime. CADIVI's average monthly exchange authorizations in 2003 were significantly fewer than the average monthly foreign currency transactions registered in 2001–2002, before the imposition of controls. Moreover, of the

\$14.3 billion authorized by CADIVI to the end of 2003, official figures show that only half was actually disbursed by the Venezuelan Central Bank.

According to key food associations, CADIVI is approving only 60% to 70% of all foreign currency needed to cover imports of food goods, forcing the local industry to go to the black market. Local consumption of imported food products declined by 16% during 2003. There is no indication as to the duration of the regime.

Agricultural Products

Sanitary regulations at the Ministry of Agriculture and Lands (MAT-SASA) are not fully transparent and authorities do not respond in a timely fashion to official enquiries regarding sanitary and phytosanitary (SPS) issues. Venezuela's commitment to an open and rules-based trading system continues to be questioned. During the past few years, Canada has made numerous representations to Venezuelan authorities, raising concerns about Venezuela's SPS-related import licensing system, which restricts agricultural products. Canada's specific concerns have been with respect to meat, seed potatoes, table potatoes, onions and, most recently, pulses. According to industry, import licences are either not granted on a timely basis, granted but not for the full amount of the request, or not granted at all. No legitimate reasons are provided for denying or delaying the licences. Canada's position is that as long as Venezuela's legitimate SPS concerns have been addressed, any SPS-related licences should be granted on a timely and automatic basis. On November 26, 2002, the U.S. held formal WTO dispute settlement consultations with Venezuela. Canada participated in these consultations.

OTHER ISSUES

Continuing political and economic difficulties call into question Venezuela's attractiveness as a foreign investment destination. Las Cristinas is a major gold mining project in Venezuela that remains the subject of long-standing and complex legal disputes involving various parties, including the Venezuelan government and several Canadian companies. A range of litigation is under way in Venezuela in an attempt to resolve the attendant commercial disputes. The Government

of Canada has underlined to Venezuelan authorities the importance of resolving the disputes in accordance with the principles of transparency, good faith and due process of law.

Central America

Overview

The Central American countries of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama are emerging economies with generally good economic growth. Annual two-way merchandise trade between Canada and Central American countries amounted to \$969 million in 2003, with Canadian exports to Central America totalling \$335 million and imports totalling \$633 million. (Note: These statistics do not include many goods transshipped through the United States.)

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

Market Access Results in 2003

- Negotiations toward a free trade agreement continued with El Salvador, Guatemala, Honduras and Nicaragua (CA4).
- The implementation of the Canada–Costa Rica Free Trade Agreement continued, including the second scheduled tariff reduction on January 1, 2003.
- Negotiations toward a Canada–Costa Rica double taxation agreement were launched.
- A direct air link between Canada and Costa Rica was established, with flights operating three times weekly between the two countries.

- Continued market access was achieved for Canadian pork, despite the individual plant inspection approval system in Panama.

Canada's Market Access Priorities for 2004

- Conclude free trade agreement negotiations with El Salvador, Guatemala, Honduras and Nicaragua (CA4).
- Pursue efforts to obtain system-wide approval from Costa Rica and Panama for Canadian meat exporting establishments, rather than continue with the inspection of individual plants, which is costly and onerous for Canadian exporters.
- Monitor the development of Salvadoran and Guatemalan regulations affecting business operations and foreign investment; provide advice to Canadian exporters; and lobby the Salvadoran government, when necessary, on behalf of Canadian export interests.
- Ensure better protection and promotion of Canadian investments in the CA4 countries through inclusion of a comprehensive investment chapter in the Canada–CA4 Free Trade Agreement.
- Continue representations aimed at removing El Salvador's and Guatemala's BSE measures on imports from Canada, including Guatemala's unjustified measures on pork.

COSTA RICA

In 2003, bilateral trade totalled \$363 million, with Canadian exports valued at \$68 million and imports at \$295 million. The main Canadian exports to Costa Rica are newsprint, fertilizers, machinery, optical and medical equipment, synthetic filament, electrical machinery, furniture, plastic, meat, oil and fresh produce. Canada imports mainly fruit, sugar, coffee, preserved food, integrated circuits, office machines and medical instruments. Canadian investment is approximately \$375 million and is concentrated in the hotel and tourism industry, banking, newspaper media, mining, environmental technologies and hydroelectric power. Canadian exporters and investors are pursuing opportunities in priority sectors such as agriculture and agri-food, construction and building materials, environment, information and communication technologies, tourism, energy and road infrastructure.

The Canada–Costa Rica Free Trade Agreement (CCRFTA) has become the cornerstone of our increasingly important trade and investment relationship with Costa Rica. Our bilateral trade has increased by 12% since the CCRFTA entered into force on November 1, 2002.

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

CENTRAL AMERICA FOUR: EL SALVADOR, GUATEMALA, HONDURAS AND NICARAGUA

In 2003, two-way trade in goods between Canada and the Central America Four (CA4) totalled \$542 million. Canadian exports to the CA4 accounted for \$212 million, while imports stood at \$330 million.

Free trade negotiations with the CA4, which were launched by the Minister for International Trade on November 21, 2001, continued to progress through ten rounds of formal negotiations and are expected to conclude in 2004. Parties are negotiating a comprehensive agreement covering market access for goods and services, investment, financial services and government procurement. Key Canadian interests include telecommunications goods and services, environmental equipment and services, value-added processed foods, automotive parts, and construction equipment and services. Parallel agreements on labour and environmental cooperation are also being pursued.

EL SALVADOR

El Salvador is an economic engine of Central America. Home to the region's largest banks, it also features a modern infrastructure for telecommunications and shipping. In 2003, two-way trade in goods between Canada and El Salvador totalled \$91 million. Canadian exports to El Salvador accounted for \$46 million, while imports stood at \$44 million.

The country's growing prosperity is based on a philosophy of open trade, incentives to encourage foreign investment, and economic reforms. Remittances from Salvadorans living abroad continue to be a driving force in the economy, exceeding \$2.8 billion in 2003. It is expected that GDP, currently at \$19.6 billion, will grow at a rate of less than 2% in 2004, the same as the previous year but still one of the highest rates in Central America. Inflation rates will remain low. Imports grew by roughly 8% in 2003 (consumer and intermediate goods represent the largest increments) and exports by 7%, surpassing \$4.2 billion.

Bovine Spongiform Encephalopathy

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

GUATEMALA

Guatemala has the largest population in Central America (11.4 million) and is the region's largest economy with a GDP of \$31 billion. The country remains Canada's largest client in the region, importing primarily basic agricultural commodities, value-added agri-food products, newsprint and machinery. In 2003, two-way trade between Canada and Guatemala totalled \$270 million. Canadian exports to Guatemala accounted for \$123 million, while imports stood at \$146 million. The potential for growth in Canadian goods and services exports to Guatemala remains substantial, particularly given the advantages and security that the impending Canada-CA4 free trade agreement will bring. New opportunities can be expected to emerge in a number of priority sectors, as well as in newer key sectors such as energy, forestry and telecommunications.

Over the past several years, the overall macroeconomic picture for Guatemala has continued to be fundamentally sound, due to careful management by the Bank of Guatemala, in collaboration with the International Monetary Fund. Economic growth has

slowed from a peak in 1998 of 3.8% but, reflecting the resurgence in the economy, is expected to reach 2.5% in 2003. Inflation has continued to decline to manageable levels of 4% to 6% over the last two years. Guatemalan imports and exports have declined somewhat over the past two years (primarily due to the collapse of coffee prices and the slowdown in key export markets for the maquila industries); however, they are expected to increase substantially over the next three years as a new government places increased emphasis on infrastructure spending and international trade concessions.

Bovine Spongiform Encephalopathy

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

HONDURAS AND NICARAGUA

In 2003, Canada's two-way with Honduras and Nicaragua totalled \$182 million. Canadian exports to Honduras and Nicaragua accounted for \$43 million, while imports stood at \$139 million. The inclusion of a comprehensive investment chapter in an eventual Canada-CA4 free trade agreement is timely, given the growing interest shown by Canadian companies in mining and tourism-oriented projects in Honduras and Nicaragua, as well as the potential development of other Canadian business interests and investments that will follow the establishment of a Sustainable Cities Initiative for San Pedro Sula and surrounding area.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Honduras placed a ban on beef products from Canada. Canada has kept all its trading partners, including Honduras, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific

grounds. (For further information, see the BSE overview in Chapter 2.) We were pleased to hear from Honduran authorities in January 2004 that they had resumed trade in boneless beef from Canada.

PANAMA

With a GDP of \$15.4 billion, the second-highest per capita income and the most stable consumer prices in the region, Panama offers tremendous potential for Canadian goods and services. In 2003, bilateral trade totalled \$63 million, with Canadian exports valued at \$55 million and imports at \$9 million.

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

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

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

Caribbean

CARIBBEAN COMMUNITY (CARICOM)

Overview

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

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

Annual two-way merchandise trade between Canada and the CARICOM countries amounted to \$1.2 billion in 2003, with Canadian exports totalling \$430 million and imports \$788 million. (Note: Statistics do not include many goods transshipped through the United States.) In addition, more than \$200 million in contracts for Canadian consulting and engineering services are awarded annually with government and development bank financing. Many privately funded service contracts go unrecorded.

Canadian investment in, and flowing through, CARICOM countries as a group exceeds \$25 billion and is mainly in financial services (banking, insurance), particularly in Barbados and the Bahamas. In the 1990s, Canadian investment diversified to include Trinidad and Tobago's energy sector and Guyana and Suriname's mining sectors.

Market Access Results in 2003

- Discussions with CARICOM continued on a framework for free trade agreement negotiations.

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

Canada's Market Access Priorities for 2004

- Commence negotiations toward a free trade agreement with CARICOM.
- Regarding BSE, finalize arrangements with Bahamas, Jamaica, and Trinidad and Tobago to resume trade in beef and other products and continue representations with other CARICOM countries for the resumption of trade.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

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

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

Bovine Spongiform Encephalopathy

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

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

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

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

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

Trinidad and Tobago: In September, Trinidad and Tobago advised of the partial lifting of its ban. However, discussions are still under way on the final details to allow trade to resume.

HAITI

Haiti is the only least-developed country (LDC) in the Western Hemisphere. Canada's LDC initiative, which allows duty-free/quota-free treatment for most exports to Canada, came into effect on January 1, 2003. The purpose of the LDC initiative is to strengthen economic development in Haiti by increasing exports and creating employment, while facilitating Canadian investment. It should be noted that Haiti already has low tariffs ranging between 0% and 15%, which compare favourably with the high tariffs of the other CARICOM members.

CUBA

Overview

Cuba is Canada's largest export market in the Caribbean and its fifth largest in Latin America, with exports totalling \$254 million in 2003. Canada is one of Cuba's largest trading partners and its second largest source of foreign investment. Cuba is an emerging market with significant potential for Canadian exporters and investors. The attractiveness of opportunities is tempered by the continuing U.S. embargo of Cuba and by U.S. legislation that attempts to impose American laws on companies

from other countries. Canada has enacted amendments to the Foreign Extraterritorial Measures Act, which attempt to counteract the U.S. laws by enabling a “clawback” of any losses awarded in U.S. courts that is enforceable against American assets in Canada. The Government of Canada is opposed to the extraterritorial application of U.S. law and does not support the embargo on Cuba.

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

Market Access Results in 2003

- The Canada–Cuba Phytosanitary Memorandum of Understanding was revised, and five annexes were added.

Canada’s Market Access Priorities for 2004

- Monitor the development of Cuban regulations affecting business operations and foreign investments and their implementation. Provide advice to Canadian exporters and lobby the Cuban government, when necessary, on behalf of Canadian business interests.
- Monitor the implementation of tariff exemptions granted to Canadian investors, under Cuba’s Law (Cuban Decree Law 77) on Foreign Investment, for imports of products necessary for investment projects.
- Continue representations aimed at the removal of Cuba’s BSE measures on imports from Canada.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Although Cuba has been suffering under the U.S. embargo for over 40 years, it has purchased more than \$700 million worth of agricultural commodities from the United States since 2001. These purchases were made pursuant to the U.S. Trade Sanctions Reform and Export Enhancement Act of 2000, which effectively removed agricultural commodities from the U.S. embargo on Cuba providing the purchases were made in cash. These cash terms, offered only to U.S. exporters, have given an advantage to certain

U.S. agricultural exports. The Government of Canada has raised this issue with Cuban officials and asked for a level playing field for Canadian exporters.

In July 2003, the Central Bank of Cuba introduced a new regulation obliging Cuban commercial entities to convert their assets into Cuban Convertible Pesos. This regulation also introduces a de facto foreign exchange control whereby Cuban companies must now receive permission from the Central Bank to access the foreign currencies needed to comply with their international obligations. We will be monitoring the implementation of this new regulation closely. Early reports indicate, however, that there has been no noticeable impact on trade flows.

Bovine Spongiform Encephalopathy

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

THE DOMINICAN REPUBLIC

The Dominican Republic is one of the Caribbean’s largest and fastest-growing markets and duty-free manufacturing zones. Official statistics put two-way trade between Canada and the Dominican Republic at \$199 million in 2003, with Canadian exports totalling \$86 million and imports totalling \$114 million. Canadian investment is substantial, mainly in telecommunications, mining, banking and tourism.

Market Access Results in 2003

- Exploratory discussions were held with the Dominican Republic on a framework for negotiations on a free trade agreement.
- Three operators of scheduled air service between Canada and the Dominican Republic were designated.

Canada's Market Access Priorities for 2004

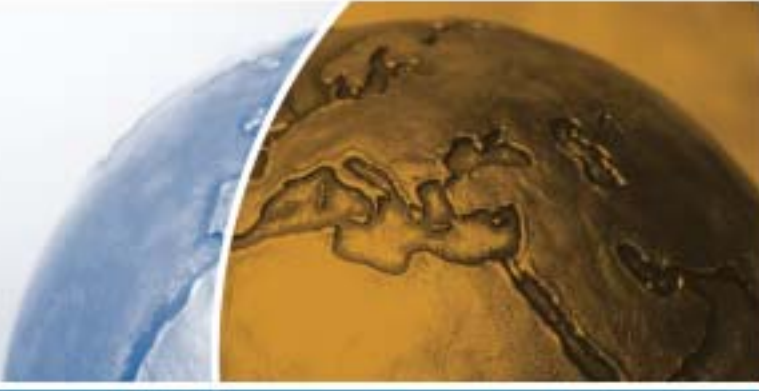
- Continue to work toward a free trade agreement with the Dominican Republic.
- Continue representations aimed at the removal of the Dominican Republic's BSE measures on imports from Canada.

IMPROVING ACCESS FOR TRADE IN GOODS

In March 2002, the President of the Dominican Republic and Prime Minister Chrétien agreed to consider bilateral free trade negotiations and decided that the two countries would initiate exploratory discussions on enhancing their trade relationship. Extensive public consultations were launched in November 2002 to obtain the views of Canadians. Exploratory discussions toward negotiation of a free trade agreement continued in 2003.

Bovine Spongiform Encephalopathy

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



5 *Opening Doors to Europe*

European Union

Overview

Canada and Europe have long-standing historical, cultural and commercial links, and the European Union (EU) is a key trade and investment partner. The relationship dates back to 1956, and Canada was the first country to sign a cooperation agreement with the EU: the Framework Agreement of 1976. Subsequently, the 1996 Joint Political Declaration on Canada–EU Relations and the Canada–EU Action Plan (www.dfait-maeci.gc.ca/english/geoleurope/ea/action-e.htm) set goals for broadening bilateral relations, not only in the trade and economic areas, but also on a broad range of foreign and domestic policy issues as well. Both parties conducted a comprehensive review of their relationship in 2003. Canada also works closely with the European Union on the promotion of the multilateral trading system,

and the parties are now laying the groundwork for the negotiation of a leading-edge bilateral Trade and Investment Enhancement Agreement.

The European Union is the world's largest single market, having surpassed the United States in population and in exports and rivalling it in gross domestic product. Its population was 377 million on January 1, 2001, and its share of the world's aggregate GDP in 2001 was 32.5%, compared with 25.2% for the United States and 2.2% for Canada. In May 2004, 10 central and southern countries will join the EU, increasing its population to 450 million.

As a group, the current 15 EU member states continue to rank as Canada's second most important trading partner. They represent the largest source of foreign direct investment (FDI) into Canada, as well as the largest destination for Canadian direct investment abroad, after the United States. The total trade and investment flow between Canada and the EU in 2002 was \$97 billion. Increasingly, Canadian and EU firms rely less on selling to each market and more on establishing a presence in each market.

Total Canadian merchandise exports to the European Union amounted to \$18.8 billion in 2003, accounting for 4.9% of Canada's global exports and 36.5% of Canada's non-U.S. exports. Canada's main exports are machinery, gas turbines and aircraft. The European Union represents approximately 17% of Canadian services exports. Although the United States absorbed 92% of the growth in Canada's global exports from 1993 to 2003, the European Union accounted for 45% of the growth in non-U.S. exports.

Canadian imports from the EU grew at more than double the rate of Canadian exports to the EU between 1993 and 2003, climbing at 9.1% compounded annually. Imports from the EU reached \$38.7 billion in 2003, with the main imports being machinery, vehicles, pharmaceuticals and aircraft. As a result, Canada has a deficit in its balance of trade with the EU, which stood at \$19.9 billion in 2003. However, at \$77 billion in 2001, sales by Canadian affiliates based in the EU are now more than four times greater than Canadian exports and will continue to grow as investment increases.

Canada and the EU are leading investors in each other's economies. Seven out of Canada's top 10 investment sources are European, and over

1,800 European companies have investments in Canada. This makes the EU the second largest investor in Canada, accounting for 29% of all FDI.

Canada is the third largest investor in Europe (after the United States and Japan). The stock of Canadian direct investment in the EU has grown substantially during the past decade. The aggregate value of Canadian direct investment in the EU stood at \$99.9 billion in 2002. Twenty-three percent of all Canadian direct investment abroad is in the European Union, a proportion topped only by our investment in the United States.

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

Canada–EU trade relations are covered by World Trade Organization (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.

Regarding enlargement of the European Union, the following countries will become full members as of May 1, 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. Bulgaria and Romania are also negotiating with the EU, but these two countries are not expected to join until 2007 at the earliest. Turkey has not yet entered into accession negotiations, because it does not meet the political, economic and “*acquis communautaire*” criteria for EU membership.

The EU is also negotiating regional free trade agreements with other parts of the world, including with the Mercosur countries and Chile. In recent years, free trade agreements have been reached with Mexico and South Africa. Some 77 developing countries that are signatories to the Cotonou Agreement already enjoy preferential access to the European Union. The EU eventually intends to convert these arrangements

into free trade agreements. In addition, the EU is moving to deepen its economic ties with its “new neighbour” economies, which include Belarus, Moldova, Russia, Ukraine, and the southern Mediterranean economies (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria and Tunisia). Canada is one of only eight economies worldwide that does not have some form of preferential trading relationship with the European Union.

Canada–EU Trade Relations

A number of bilateral instruments are in place to help manage Canada–EU trade relations, and the Minister of International Trade and his counterpart, the EU Commissioner for Trade, meet frequently to discuss the bilateral and multilateral trade agenda. The 1976 Framework Agreement for Commercial and Economic Cooperation established the Joint Cooperation Committee, which meets annually at the senior official level. Canada–EU trade issues are also addressed by officials through the Trade and Investment Sub-Committee as well as in other sectoral working groups.

Canada–EU Trade and Investment Enhancement Agreement

One of the key outcomes of the December 2002 Canada–EU Summit was the commitment by leaders to “design a new type of forward-looking, wide-ranging bilateral trade and investment enhancement agreement” (TIEA). This new agreement, in combination with the anticipated results of the Doha Round, is intended to move beyond traditional market access issues and would include areas such as trade and investment facilitation, as well as science, technology and regulatory cooperation. Following agreement on their design, it is expected that negotiations will start in 2004 and conclude once the results of the WTO Doha negotiations are known.

The TIEA will be an important element in the development of Canada’s broader relations with the EU, particularly as the EU enlarges to 25 countries. Canada sees the proposed TIEA as an ambitious and forward-looking initiative, responding not just to current issues, but also anticipating future challenges and creating opportunities to broaden and deepen the trade, investment and overall relationship. Although

trade between Canada and the candidate countries is relatively modest, there will be some impact on trade flows as new members harmonize tariffs and regulatory schemes with the EU. Once they join the EU, the candidate countries will lose access to Canada's General Preferential Tariff. In terms of investment treaties, Canada currently has bilateral foreign investment protection agreements with five of the newly acceding countries: the Czech Republic, Hungary, Latvia, Poland and Slovakia. Maintaining high-level investment protection for Canadian investors is important as the new EU members bring their investment regimes into EU conformity.

Regulatory Cooperation

International trade policy is increasingly influenced by domestic decision making and regulatory activity. Consequently, Canada–EU regulatory issues are seen as being central to trade discussions. At the Canada–EU Summit in May 2003, leaders adopted a Joint Action Plan on Canada–EU Regulatory Cooperation and Dialogue as a first step toward developing a framework in this area. Work on a Canada–EU Framework on Regulatory Cooperation is meant to parallel work under way on the proposed TIEA and is expected to be a central element of an eventual agreement.

Market Access Results in 2003

- A Canada–EU Agreement on Trade in Wines and Spirit Drinks was finalized.
- A Canada–EU Cereals Agreement was finalized.
- A Joint Action Plan on Canada–EU Regulatory Cooperation and Dialogue was adopted at the May 2003 Summit.

Canada's Market Access Priorities for 2004

- Launch negotiations on the Canada–EU Trade and Investment Enhancement Agreement.
- Adopt a bilateral Framework on Regulatory Cooperation with the aim of increasing market access and enhancing trade by reducing regulatory irritants and promoting good regulatory practice.
- Press the EU for improved market access for cooked and peeled shrimp, including relaxation of the requirement for further EU processing.

- Advance equivalency in commodities covered under the Canada–EC Veterinary Agreement, particularly with respect to pork and bovine semen.

IMPROVING ACCESS FOR TRADE IN GOODS

A number of trade barriers of concern to Canada exist in the EU, particularly in the agricultural and natural resources sectors. In the wake of food-safety crises in the EU, the European Commission and member states have adopted more cautious positions on consumer health and safety issues, and factors other than scientific considerations appear to be growing in influence. Several updated regulations related to food safety and animal health were implemented in 2003. The Government of Canada continues to work with industry stakeholders to assess the impact and scientific basis of such legislation.

Aluminum

Reducing tariffs on aluminum ingot and other non-ferrous metals remain a priority for Canada. With regard to aluminum, the Canadian industry's efforts (supported by the government) to encourage like-minded EU producers and users of ingot to urge the European Commission to reduce or suspend the 6% tariff has resulted in some success. The European industry has announced that it is willing to give up this tariff under certain conditions in the current WTO negotiations.

Fish and Seafood

Canadian fish and seafood exports to the EU have increased over each of the last three years. In 2003 exports were up by 13% to \$332 million. This still represents a sharp decline from previous years. In 1990, seafood exports to the EU represented about 20% of Canada's global fish and seafood exports; the 2003 figure was 8.3%. Major factors in the decline have been the reduced supplies of groundfish, high EU tariffs and privileged access to the EU market enjoyed by Canada's major competitors. The EU tariffs on many fish and seafood items of interest to Canada fall within the range of 12% to 23%.

Coldwater shrimp exports face tariffs of up to 20%, depending on the product form. Because of these barriers, improved access to the EU for Canadian fisheries exports will continue to be a priority for the government.

In April 1999, the EU opened a 4,000-tonne autonomous tariff rate quota (ATRQ) for cooked and peeled shrimp, under which the product was subject to a reduced duty of 6% if imported for further processing in the European Union. As a result of efforts by the federal and provincial governments, together with industry representatives, EU member state fisheries ministers subsequently extended the ATRQ to cover the years 2001 to 2003 and increased the quantity to 5,000 tonnes annually. In October 2003, the EU increased the annual ATRQ to 7,000 tonnes. In the medium term, Canada will address the broader seafood tariff issues during the current round of multilateral trade negotiations. In the short term, Canada is seeking to persuade the EU to make improvements to the ATRQ for cooked and peeled shrimp, including through maintaining or increasing the current quota and relaxing the ATRQ's restrictive end-use requirements (which call for further processing in the European Union).

New Chemicals Policy

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

Canada expressed concern in a number of areas of the proposed regulation. The inclusion of raw materials such as ore and concentrates in the scope of REACH may have serious cost implications. These materials are complex and heterogeneous. Thousands of different materials with unique characteristics could each require the preparation of a registration dossier.

The opportunities for sharing the cost of registration among companies for such materials is limited. Canada is also concerned about the treatment of metals in massive and solid forms and of alloys. In massive forms, the potential for exposure, and therefore the potential impact on the environment and on health, is greatly reduced.

The proposal is in its initial legislative stages; no final decision is expected before the next European Parliament elections. Canada will continue to monitor developments concerning this regulation as it applies to the minerals and metals sector and particularly with regard to its consistency with the EU's WTO obligations.

Organic Food Products

The EU has detailed regulations on the production, labelling and inspection of organic products, and it maintains a list of countries from which imports of organic products are permitted. Canada does not appear on this list. Until December 31, 2005, countries not on the list may still export organic products to the EU, provided that the importer furnish evidence that the imported products were produced in a manner equivalent to that specified by EU rules and inspected according to EU-equivalent measures. The case-by-case nature of this approval process creates uncertainty for Canadian exporters. After 2005, imports of organic products must originate in countries appearing on the EU list.

Canada will submit a formal application for inclusion on the EU list, which will demonstrate how Canada's certification system and national production standard are equivalent to that of the EU. This application will be submitted once the revision of Canada's National Organic Standard is complete and the Standard is approved by the Standards Council of Canada.

Risk Assessments

The EU is currently undertaking assessments of the health and environmental risks associated with the use of three metals of significant export interest to Canada: cadmium (by Belgium), zinc (by the Netherlands) and nickel (by Denmark). The lead and copper industries have initiated voluntary risk assessments. If a product "fails" the assessment and is deemed a health or environmental risk, the use

of the product can be severely restricted or banned. Current EU practice is for member states to take the lead in developing a risk assessment for a given substance. The risk assessment process is an internal EU process that precludes third-party assessment. Moreover, the use of risk assessment methodologies designed for organic substances can lead to inappropriate outcomes for inorganic substances, such as minerals and metals, resulting in unnecessary market restrictions.

Sanitary and Phytosanitary Import Regulations

Beef Hormones

In 1989, the EU banned the use of growth-promoting hormones in livestock and imposed a ban on the import of beef produced with such hormones. Both Canada and the United States consistently opposed the ban on the grounds that it was not based on scientific evidence and was an unjustified barrier to trade. The safety of growth-promoting hormones has been endorsed by the Codex Alimentarius and by Canada's own scientific reviews. After Canada and the United States referred the matter to the WTO, a panel concluded in August 1997 that the EU ban violated the Sanitary and Phytosanitary Measures Agreement since it could not be justified by scientific evidence. The panel's conclusion was further confirmed by the WTO Appellate Body in January 1998. The European Union was given until May 1999 to implement the WTO rulings, but it failed to do so.

Canada and the United States received authority from the WTO Dispute Settlement Body to retaliate against the EU. On August 1, 1999, Canada imposed retaliatory tariffs in the amount of \$11.3 million annually on a list of imports from the EU, including beef, cucumbers, gherkins and pork. These measures will remain in effect until such time as the EU implements the WTO rulings or offers a satisfactory compensation package on an interim basis pending implementation of the WTO rulings.

On October 15, 2003, the EU issued a press release announcing that a new EU directive concerning the prohibition on the use of hormones had entered into force, that the EU now deemed itself to be in compliance with the WTO rulings, and that it was requesting the U.S. and Canada to remove their retaliatory measures. At the December 1 meeting of

the WTO Dispute Settlement Body, the EU asked both Canada and the U.S. to initiate a WTO Article 21.5 compliance panel.

Canada continues to maintain that it has not seen a scientific basis for the ban and has indicated that it is open to bilateral discussions with the EU in which the EU could explain its position. In the meantime, the retaliatory measures will remain in place. The U.S. has taken the same position and is working closely with Canada on this issue.

Canada's objective remains full access to the EU market for Canadian beef. More information is available on the Department of Foreign Affairs and International Trade Web site (www.dfait-maeci.gc.ca/tna-nac/dispute-e.asp#Hormones).

Canada–EU Veterinary Agreement

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

A fifth meeting of the JMC was held in Europe in July 2003, which resulted in a number of achievements of practical interest to Canadian exporters. For example, significant progress was made toward an agreement on equivalency for Canadian pork. The two parties also reached agreement on a reduced inspection frequency for trade in live and fresh fish products and testing of live horses exported to the EU. EU and Canadian regulators also invested significant effort at this meeting in planning for the EU's July 2003 audit of Canada's shellfish program. Canada considers that the audit was successful and will contribute to improved access for Canadian shellfish to the EU market.

Moratorium on Approval of GMOs

A group of member states has been blocking the approval of genetically modified organisms (GMOs) for marketing in the European Union since October 1998. It was hoped that the approval process would restart on October 17, 2002, following the adoption of revised legislation (Directive 2001/18/EC)

strengthening the rules for the risk assessment and approvals process. However, the *de facto* moratorium remains in place. On June 25, 2003, Canada held consultations with the EU under the Dispute Settlement Understanding of the WTO on the EU approval system for GMOs. On August 29, 2003, the Dispute Settlement Body established a panel to deal with the issue of GMO approvals in the EU. Hearings on this issue will likely take place in the spring of 2004, and a panel report could be expected by the end of the year.

Labelling and Traceability of GMOs

On October 18, 2003, new regulations for GM food, feed and the traceability and labelling of GMOs were published in the *Official Journal of the European Union*. Member states and the European Parliament had stated that strict compulsory regulations would assist in rebuilding EU consumer confidence and would have to be in place as a condition of restarting the GMO approval process.

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

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

Pinewood Nematode

Since July 1993, the European Union has required that Canadian exports of softwood lumber, except cedar, must be heat-treated in order to ensure the destruction of the pinewood nematode. This requirement has effectively eliminated Canadian exports of green softwood lumber to the European Union. Canada has indicated on numerous occasions that it views this mandatory requirement as excessive, given the negligible risk of establishment of pinewood nematode in the European Union as a result of trade in Canadian green softwood lumber.

Over the years, Canada has proposed alternative measures to control pinewood nematode, while allowing trade in green lumber. However, the EU has not accepted Canadian proposals for less trade-restrictive measures. At Canada's request, WTO consultations were held on July 15, 1998, but the issue remains unresolved. An EU technical team visited Canada in September 2002 to renew scientific discussions. As a result of these discussions, the EU asked Canada to submit a new technical proposal; however, Canada's position remains unchanged.

Kiln-Dried Heat-Treated Lumber Paperless Certification

In 2000–2001, Canada developed and sought EU approval of an innovative paperless certification program to streamline paperwork requirements for exports of kiln-dried lumber that has been heat-treated (KD-HT) as part of the kiln-drying process. During the September 2002 EU visit, significant progress was made on the KD-HT paperless certification file, and discussions continued throughout 2003. The EU's plant health committee unanimously approved Canada's KD-HT paperless certification proposal in November 2003, with a 17-month trial period beginning on February 1, 2004. Details of the program are still under discussion.

Seed Potatoes

A derogation from EU phytosanitary requirements is required for continued access to the European Union for Canadian seed potatoes. The particular pests of concern are bacterial ring rot and potato spindle tuber viroid. Typically, an annual derogation has been granted based on the requirement that Canada

conduct stringent laboratory testing and certification of disease-free zones in Prince Edward Island and New Brunswick for all exports to the European Union. In September 1999, the EU Standing Plant Health Committee approved a three-year derogation for Canadian seed potatoes. Historically, Italy and Portugal are the only member states that take advantage of the derogation.

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

OTHER ISSUES

Government Procurement

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

Telecommunications

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

European Free Trade Association

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

Russian Federation

Overview

Russia enjoyed strong macroeconomic performance in 2003, with real economic growth of over 7%, the fourth fiscal surplus in a row, and inflation around 14% and falling. This growth, coupled with positive changes in debt management policies, has improved Russia's creditworthiness: the country received an investment grade rating from Moody's Investors Service in October 2003. High oil prices and rising petroleum output are the main sources of growth. The petroleum sector accounts for 35% of government revenues and over 50% of exports.

High domestic demand and an appreciating ruble led to increasing imports over the course of 2003. Russia's largest trading partner is the European Union, which accounts for about 55% of the country's imports and exports. Total Canadian exports to Russia in 2003 exceeded \$322 million, a 34% increase over 2002. Since a significant volume of

Canadian exports to Russia is shipped through third countries (in particular, Finland, Korea, Latvia, Poland and the United States), this figure significantly understates the true size of our trade flow to Russia. Among Canada's main exports to Russia in 2003 were machinery and equipment for the oil and gas, mining and agricultural sectors; meat; special purpose vehicles and automobiles; building products; telecommunications equipment; instrumentation; cereals; and heating equipment. Although not included in the official statistics, there is also a notable volume of Canadian professional services exports to Russia, especially in the engineering and legal areas.

In November 2003, Export Development Canada (EDC) and Vneshtorgbank, one of Russia's largest banks, signed a memorandum of understanding, setting up a framework to enter into financing arrangements for specific transactions and a US\$50-million line of credit for lending to Russian clients for purchases from Canada. EDC also announced in January 2003 a US\$15-million line of credit with ALROSA, Russia's largest diamond company.

In 2002, Canadian investment in Russia totalled \$244 million. Most of the investment disputes common in the 1990s have now either been settled or are in the court system. Although concerns continue on a lesser scale with respect to corporate governance, an underdeveloped judicial system, bureaucracy and uneven treatment from regional administrations, major Canadian firms are now looking again at Russia as a strategic investment market. Of particular interest are natural resource development, infrastructure, services, industrial development, high technologies and agri-food.

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

Canada's 2003 imports from Russia totalled \$809 million. This figure represents a significant increase of \$429 million over the same period last year. Crude

oil dominates Canadian imports from Russia. Other major Canadian imports are fish, iron and steel products, fertilizer and precious metals.

Market Access Results in 2003

- On bovine spongiform encephalopathy (BSE), Canada and Russia reached an agreement on the resumption of trade in bovine embryos in August 2003 and bovine semen in December 2003.
- On the basis of the Canada–Russia Bilateral Agreement on Air Relations of 2000, in November 2003 Air Canada was granted temporary authority to fly over Russian territory on regular flights from Toronto to Delhi. Discussions are under way to review and adjust the Agreement, including by establishing the Toronto–Delhi route on a long-term basis.

Canada's Market Access Priorities for 2004

- Continue to seek the removal of tariff rate quotas on meat products imposed in April 2003.
- Pursue most-favoured-nation treatment on various products provided for in the Canada–Russia Agreement on Trade and Commerce of 1992.
- Continue representations aimed at removing Russia's remaining BSE measures on imports from Canada, in particular live cattle and beef.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

World Trade Organization Accession Negotiations

Russia applied to join the World Trade Organization (WTO) in 1993 and made initial market access offers to WTO members in 1998 (for goods) and 1999 (for services). Canada supports Russia's WTO accession and has been an active participant in negotiations. In the process of negotiations, Russia has agreed to lower trade barriers on goods and services of interest to Canadian exporters, and it has enacted legislation and other regulatory changes to improve the business environment in Russia.

Nevertheless, there are a number of outstanding issues, which Canada will continue to address in Russia's WTO negotiations in 2004. These include:

- recently introduced trade-restricting measures on Russian imports of beef, pork and poultry;
- the transparency and predictability of sanitary and phytosanitary measures applied by Russia to imports of food;
- the level of trade-distorting agricultural subsidies that Russia will be able to apply in the future;
- tariffs on a limited number of industrial and agricultural goods of interest to Canada, such as oil and gas equipment, agricultural and agri-food products, fish and fish products, vehicles, aircraft and aircraft parts, and telecommunications equipment;
- Russian standards and technical regulations applied to imports;
- market access for foreign services providers, particularly in the areas of telecommunications, banking, insurance, construction, environment, transport, natural resources and professional services;
- protection of intellectual property rights, in particular enforcement of existing laws and regulations;
- trade-distorting effects of below-market energy prices, especially as they benefit Russian fertilizer manufacturers; and
- the transparency and predictability of Russian customs procedures.

Tariff Rate Quotas on Meat Products

Canada objected to the introduction in April 2003 of tariff rate quotas on meat products. These measures have significantly reduced trade between Canada and Russia. In November 2003, the Russian government announced the maintenance and extension of such measures on pork, beef and poultry for the 2004 calendar year. Through bilateral and multilateral negotiations, Canada will continue to seek improvements and the eventual removal of such trade-restricting measures. Shipments of pork and poultry, both among Canada's top five exports to Russia in 2002, fell by more than 45% in 2003.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Russia issued temporary restrictions on the import of Canadian live cattle, embryos, beef, and beef products derived from bovine, as well as feed and feed additives that contain processed animal protein. Canada has kept all its trading partners, including Russia, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.) Russia announced its intention to resume trade in beef in August; however, we have not been able to reach a final agreement. Canada was pleased to hear from Russian authorities regarding the resumption of trade in bovine embryos in August and bovine semen in December. We are now pressing for access for beef and live cattle.

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

According to the Canada–Russia Agreement on Trade and Commerce of 1992, Canada is entitled to receive most-favoured-nation treatment with respect to trade in goods and services. Canada is discussing with Russia the consistency of this provision in view of advantages accorded to goods imported from third countries but not to Canadian goods. Specifically, Russia offers duty-free access for space technology products from some trading partners but not from Canada.

Next Session of the Intergovernmental Economic Commission

The Canada–Russia Intergovernmental Economic Commission (IEC) was established in 1994 through the Canada–Russia Agreement on Economic Cooperation. The IEC provides a forum for Canadian companies to meet Russian businesses and officials, highlight opportunities, strengthen bilateral trade relations and raise market access problems. The most recent IEC meeting was held in Ottawa in 2001, and the next one will likely be held in 2004 in Moscow.

Ukraine

Overview

The Ukrainian economy has shown encouraging signs of recovery in recent years following the severe adjustments it went through in the 1990s. In 2003, the real GDP growth was estimated at 4%, foreign exchange reserves increased by 57% to US\$6.9 billion and the exchange rate remained stable. Growth, which is expected to approach 4.5% in 2004, has been fuelled by an increase in exports, especially to Russia, increased investment, export diversification, a decline in barter transactions and progress in land reforms.

Canadian exports to Ukraine grew by 110% in 2003 to \$65 million, after rising 66% in 2002. Canada's primary exports to Ukraine include machinery, meat, vehicles and textiles. There is significant market potential for Canadian firms in the agriculture, oil and gas, construction, and information and communication technology sectors. Ukraine is continuing progress to a market-based economy and providing a good base for continued export growth in traditional and new sectors. Canada's large Ukrainian diaspora community ensures a special link with Ukraine.

In 2003, Canada's imports from Ukraine totalled \$78 million. This represents an increase of \$7 million over the same period last year. Fertilizers dominate Canadian imports from Ukraine. Imports of steel, steel products and textiles are also important.

Canada is one of the 15 largest investors in Ukraine, with investments of about \$80 million since Ukraine achieved independence in 1991. Investments are concentrated in the oil and gas, energy and glass-manufacturing sectors. Canada has signed a Foreign Investment Protection Agreement with Ukraine.

The Government of Canada is working to increase bilateral trade and investment with Ukraine through the Canada-Ukraine Intergovernmental Economic Commission (IEC) established in 1996 and through Ukraine's WTO accession negotiations. The IEC was created to identify business opportunities and to resolve trade and investment obstacles and irritants for Ukrainian and Canadian companies.

Market Access Results in 2003

- In November, Ukraine lifted its BSE-related restrictions on milk, milk products, leather and raw materials, bovine embryos and semen from Canada.

Canada's Market Access Priorities for 2004

- Canada will continue efforts to reach agreement with Ukraine authorities on a Canadian Food Inspection Agency export certificate for pork.
- Ukraine currently applies tariffs of approximately 90% on pulse products, even though it does not produce these products. As per the Canada-Ukraine market access agreement signed in February 2002, the bound tariff will not be higher than 10% when Ukraine joins the WTO. Canada will lobby Ukraine to implement this tariff offer prior to its WTO accession.
- Continue representations aimed at the removal of Ukraine's remaining BSE measures on imports from Canada.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Ukraine initially issued a ban on imports of Canadian live cattle, beef or beef products, milk, milk products, leather and raw materials, bovine embryos and semen. Canada has kept all its trading partners, including Ukraine, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.) Canada was pleased to learn, in November 2003, that Ukraine will allow the import of Canadian milk, milk products, leather and raw materials, bovine embryos and semen.

World Trade Organization Accession Negotiations

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

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

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

The Centre for Trade Policy and Law (CTPL) of Ottawa and Carleton universities is working with the Ukrainian Ministry of Economy to build Ukraine's capacity to participate effectively in the accession process and to enable it to implement its WTO obligations. The Trade Policy Capacity Building project involves four areas:

- technical assistance on international trade issues to address short-term needs in WTO accession;
- institutional capacity building by developing a Ukrainian Centre similar to the CTPL;
- an internship program for graduate students in international trade; and
- working with academic institutions in Kyiv and Lviv to train instructors to provide international trade policy courses.

Asia-Pacific Economic Cooperation Forum

Since its inception in 1989, the Asia-Pacific Economic Cooperation (APEC) forum's agenda has evolved in response to developments in world trade. APEC ministers and leaders have acted as an informal caucus in support of strengthening the multilateral trading system. During the latest APEC Economic Leaders Meeting held in Bangkok, Thailand, in October 2003, leaders issued a strong statement in support of the World Trade Organization's (WTO) Doha Development Agenda, which had suffered a setback at the Cancun Ministerial Conference a month earlier. Leaders also emphasized the need for more WTO programs, including those aimed at technical capacity building, to assist less-developed member economies. They called for structural reform as an essential tool in creating economic growth and prosperity. In keeping with Thailand's themes for 2003, leaders also urged development of domestic and regional bond markets, micro-enterprise financing structures and capacity-building initiatives for small and medium-sized enterprises, and they affirmed the importance of social safety nets in promoting sustainable economic development in the region.

Since the Shanghai Summit of 2001, APEC has been active in the war against terrorism through the promotion of secure trade, highlighting the linkages between security and prosperity. In 2003, leaders re-committed APEC to the war against terrorism and built upon the 2002 Secure Trade in the APEC Region (STAR) initiative, a program inspired by the achievements of the G8 Kananaskis Summit and designed to enhance security in the transport sector. Canada's most notable contribution in 2003 was a symposium in Vancouver on the Canada-U.S. Smart Border Action Plan, which successfully met its goal of exposing our APEC partners to the innovative solutions we are implementing with the United States and encouraging them to follow our example in dealing with the new security environment. This event was organized by the Department of Foreign Affairs and International Trade in partnership with Canadian

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Manufacturers and Exporters, the U.S. government, Transport Canada, Canada Customs and Revenue Agency, Citizenship and Immigration Canada and the Royal Canadian Mounted Police.

Following up on the "Shanghai Accord"—adopted in 2001 to reinvigorate APEC's trade agenda and help provide momentum toward APEC's goal of free and open trade and investment in the region by 2010 for developed economies and 2020 for developing economies—members continued to implement in 2003 the APEC Trade Facilitation Action Plan. The plan aims to cut transaction costs in the region by 5% by 2006, and it includes a menu of concrete actions and measures that members can implement to reach this goal. A World Bank-APEC study on the economic impact of trade facilitation (which Canada oversaw on behalf of the APEC Committee on Trade and Investment) shows that improvements in trade facilitation could increase intra-APEC trade by US\$280 billion.

In addition, APEC members followed up on last year's Statement to Implement APEC Transparency Standards, which is designed to foster greater transparency in laws, procedures and administrative rulings of APEC members. Members agreed on transparency standards for eight industry sectors: services, investment, competition policy and deregulation, intellectual property, customs procedures, business mobility, market access and standards. They agreed to further work in 2004 aimed at reaching consensus on government procurement.

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

Throughout 2003, Canada was involved in a number of initiatives aimed at building the capacity of developing economies. The Department of Foreign Affairs and International Trade organized a series of workshops on GATS (General Agreement on Trade in Services) financial services negotiations in Vietnam, Thailand and the Philippines. As a co-chair of the APEC Group on Capacity Building, which coordinates all of APEC's work in this area, Canada developed a Web-based directory of all WTO capacity-building projects offered within APEC. It then followed up by preparing for APEC a report on APEC's WTO capacity-building activities. The report was endorsed by APEC trade ministers and passed on to the WTO. In 2004, the Canadian International Development Agency (CIDA) will continue to implement its \$9-million APEC economic integration program, which will provide WTO capacity-building assistance throughout Southeast Asia.

Market Access Results in 2003

- A strong Leaders' Statement was adopted, which supports resumption of negotiations in the WTO's Doha Development Round, using the Derbez text from the Cancun Ministerial Conference as a starting point.
- APEC Transparency Standards on administrative transparency were adopted, which will improve market access throughout the region.

- A wide range of capacity-building projects on trade policy and counterterrorism were implemented.
- The Trade Facilitation Action Plan was further implemented; the Plan will cut business transaction costs by 5% over five years.
- The Structural Reform Action Plan was adopted.
- APEC's 1998 *Menu of Options for Investment Liberalization and Business Facilitation to Strengthen APEC Economies* was expanded to include competition policy and regulatory reform.
- An Energy Security Initiative and an Energy Security Action Plan were adopted.
- A Health Security Initiative and a SARS Action Plan were adopted.
- The E-APEC Strategy was implemented through the organization of a wide range of workshops, seminars and training programs on issues related to bridging the "digital divide."

Chile, which will host APEC in 2004, is expected to emphasize APEC's work in support of the multilateral trading system, regional and free trade agreements, and security. In 2004, Canada's major objectives will include support for the WTO; implementing the Trade Facilitation Action Plan, consistent with the direction provided by the 2001 Shanghai Accord; and aiming to expand opportunities for Canadian businesses in the region. In addition, Canada will play a major role in APEC's WTO capacity-building initiative, with several projects expected to take place next year. Canada will build on the success of its Smart Border Symposium and continue work on counterterrorism capacity building.

APEC and SARS

In 2003, Severe Acute Respiratory Syndrome (SARS) became one of the most high-profile health concerns in the world, particularly in the APEC region. APEC includes all the economies most affected by SARS: Canada, China, Chinese Taipei, Hong Kong, Singapore and Vietnam. At the height of the crisis, APEC adopted an Action Plan on SARS, primarily designed to address the economic consequences of the disease, such as the loss of business confidence in the region and the imposition of health measures that could severely impact trade and tourism. Canada played a leadership role in first proposing that

APEC address this issue, and then in working with Thailand, host of APEC 2003, to draft the Action Plan, which included a number of measures aimed at increasing the transparency of information exchange among all APEC economies on the course of the disease. Thailand organized a special meeting of APEC health ministers in early June. At that meeting, Canada worked to encourage other economies to adopt a more uniform response to health crises such as SARS, based on internationally accepted guidelines or best practices.

Japan

Overview

Japan is Canada's second largest national trading partner (after the United States), taking 2.1% of total exports, and is the fifth largest source of foreign direct investment (FDI) in Canada. Canada is a leading supplier to Japan of a number of products of key export interest, such as lumber, pulp and paper, coal, meat, fish, oilseeds and prefabricated housing. While resource-based exports continue to represent much of our trading relationship, Canada is an increasingly important source of sophisticated, value-added, technology-driven products and services imported by Japan. There is an increasing interest in and demand for Canadian technology in areas such as aircraft, information technology, environmental products and services, optical instruments, vehicles and chemicals. Although Japanese FDI levels have remained relatively stable over the last few years, they have increased by about 44% in the last 10 years. Japan is the most important investor from Asia/Oceania, accounting for about half of all FDI from the region. In 2002, with a stock of \$8.6 billion, Japan accounted for about 2.5% of FDI in Canada.

In 2003, Canada's total merchandise trade with Japan was \$22 billion. Canadian exports to Japan have declined steadily since the mid 1990s, Canadian exports to Japan declined again to \$8.1 billion in 2003 from \$8.4 billion in 2002. Imports from Japan decreased by 10% in 2003 to \$14 billion. In 2003, Canada exported \$1.4 billion in services and imported \$1.9 billion. The long-term trend in Japan

is toward a growing demand for cost-competitive and innovative imports, which represents a significant market opportunity for Canadian exporters.

In order to identify opportunities arising through regulatory reform and restructuring in Japan's changing marketplace, the Department of Foreign Affairs and International Trade carried out an analysis of trading patterns in potential sectors of opportunity. The results of this study have been shared with Canadian and Japanese business, as well as with interested representatives of the Japanese government. The analysis points to new opportunities in information and communication technologies, value-added food products, transportation equipment, building products and prefabricated buildings, medical devices and pharmaceuticals, new energy products such as fuel cells, power generation and environmental services. In addition, the Department of Foreign Affairs and International Trade and Industry Canada commissioned a study on opportunities in the services sector, which identified where shifts in the Japanese economy have created significant potential. Produced by the Japan Market Resource Network in August 2002, this study found that the most potential for Canadian business lies in services related to information technology, the environment, accounting, architecture and health care; however, barriers such as domestic opposition to foreign competition, excessive regulation and opposition to deregulation of certain sectors pose serious challenges for Canadian companies aiming to enter the Japanese market. The Government of Canada will use these findings to supplement its efforts in established trade sectors (such as automotive, aerospace, forest products, minerals, agriculture and fisheries, and consumer products) with new initiatives aimed at supporting these emerging priority industries.

To encourage diversification of Canada's traditional commodities-based trade relationship with Japan, efforts are being made to emphasize Canada's strengths in high-technology sectors and to re-brand Canada as a technologically sophisticated society. These efforts have begun to bear fruit, with signs of increased business activity, especially in the high-technology sectors. Despite a worldwide slowdown in the information and communication technologies (ICT) sectors, Canadian companies continue to take advantage of opportunities in the huge Japanese ICT

market, valued at \$490 billion in 2001 by Infocom Research Inc. During the past two years, many Canadian ICT companies have entered the market directly or indirectly through partners, agents and distributors, and the share of manufactured goods and value-added services exports to Japan continues to increase.

Japanese awareness of Canada as a sophisticated business partner will also be raised through Canadian efforts to attract Japanese FDI. The Department of Foreign Affairs and International Trade is working closely with other federal government departments and provincial and municipal authorities to maintain and attract Japanese investment into Canada. Toyota's decision in 2000 to produce its Lexus RX 330 luxury sport-utility vehicle in Canada, starting in 2003, is a testament to increasing Japanese recognition of Canada as a good place to do business. The Toyota plant in Cambridge will be the first to manufacture the Lexus RX 330 outside Japan.

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

Managing the Relationship

The basic framework for Canada–Japan trade and investment is provided by the multilateral WTO/General Agreement on Tariffs and Trade (GATT) system, supplemented by a number of

bilateral instruments, such as the 1976 Framework for Economic Cooperation Agreement and the Joint Economic Committee. Canada and Japan continue to promote trade development and economic cooperation under this framework and pursuant to the Joint Communiqué announced during the 1999 Team Canada mission led by Prime Minister Chrétien. The Joint Communiqué reaffirmed the intention of the two governments to advance regulatory cooperation with a view to facilitating trade in regulated products. It also welcomed the interest expressed by the private sector in undertaking a study of bilateral trade and investment opportunities.

Trade policy meetings provide a comprehensive view of the trade and economic relationship. However, they are complemented by regular issue-specific talks conducted by government departments and agencies in Canada and Japan, in such sectors as telecommunications, culture, building codes and related product standards, environment, tourism, air services, oilseeds and transportation. This range of themes is indicative of the breadth of our trade and economic relationship with Japan. A review of the more than 40 bilateral consultative mechanisms between Canada and Japan was completed in June 2001 by the Canadian and Japanese governments. The exercise was designed to identify mechanisms that have completed their roles, as well as those that should be strengthened in the context of efforts to revitalize the bilateral relationship.

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

Negotiations for an agreement between Canada and Japan regarding cooperation on anti-competitive activities were announced in June 2002. Following negotiations in Ottawa in November and through several video conferencing sessions in 2003, an agreement is nearing completion. This agreement seeks to coordinate enforcement activities between the Canadian and Japanese authorities responsible

for regulating competition. Talks are also ongoing at the technical level between Canadian and Japanese authorities on the possibility of a social security agreement. Such an agreement would improve the business and investment environment for businesses of one country operating in the other's jurisdiction by encouraging labour mobility.

Regulatory reform has been a Japanese government priority for a number of years. Canada (along with Australia, the United States, the European Union and domestic organizations such as Keidanren) has made regular annual submissions to the Japanese regulatory reform authorities, whose latest incarnation is the Regulatory Reform Council. Canada's submission in 2003 to the Regulatory Reform Council included not only areas of particular concern to Canada, such as telecommunications and building standards, but also more cross-cutting structural issues related to the overall investment environment in Japan. Many of these issues have serious implications for the overall recovery of the Japanese economy and for the ability of Japan to attract foreign, including Canadian, investment. We have seen some progress in deregulation, including on issues included in the Canadian submission, with improvements in the areas of foreign lawyers, customs procedures, competition policy, reviews of medical devices and pharmaceuticals, judicial reform and corporate governance. The Japanese government has also announced and begun implementing a program for the Promotion of Special Zones for Structural Reform, and hundreds of special zones have already received approval. It is hoped that examples of successful deregulation in these limited areas will have a demonstrative effect and be expanded country-wide. These initiatives make it easier for new entrants with novel concepts to enter the Japanese market.

Market Access Results in 2003

- In 2003, Japan introduced new regulations to control the use of formaldehyde in building products. The regulations impose stringent new requirements for certification and have the potential to limit market access for Canadian exporters. Canada worked with the Japanese government to reduce the impact on Canadian exporters. For example, Japan agreed to exempt hardwood flooring, a major export product to Japan. Japan also agreed to accept foreign test

data for certifying products. However, Canada has not yet succeeded in having a Canadian evaluation body accredited by Japan.

- Canada, in collaboration with embassies from other countries, has worked with the Ministry of Health, Labour and Welfare to facilitate the approval of food additives in regular use internationally and to help bring Japanese legislation into line with international practice. This work is ongoing with respect to a large number of food additives.
- Canada made substantial efforts to engage Japan's cooperation on living modified organisms. Although the bilateral discussions did not lead to a memorandum of understanding, the exchanges served to increase mutual understanding of the respective agricultural commodity handling systems and regulations on agricultural products of biotechnology.
- The Japanese government introduced legislation to promote cooperation and collaboration between Japanese lawyers and foreign lawyers qualified under Japanese law, which will make it easier for Canadian lawyers to practice in Japan and to provide legal assistance on international transactions involving Canadian and other foreign companies.
- In early 2002, the Japanese government announced its intention to ban the use of asbestos in Japan within one year. Following this announcement, the Canadian asbestos industry, the Government of Canada and the Government of Quebec mobilized to press Japan to adopt a controlled-use approach similar to that in use in Canada or, at a minimum, to delay implementation of the ban in order to give industry sufficient time to adapt. In October 2003, instead of banning asbestos outright, Japan enacted legislation to ban the use of certain products containing asbestos. In addition, Japan specified an implementation date of October 2004, giving industry one year to adapt.

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing Japan's bovine spongiform encephalopathy (BSE) measures on imports from Canada.
- Continue to press for a reduction of duties applied to vegetable oils (particularly canola), processed foods, red meats, fish, forest products

(spruce-pine-fir lumber, softwood plywood, laminated veneer lumber, oriented strand board and laminated beams), non-ferrous metals and leather footwear.

- Continue to press for the elimination of specific technical and regulatory barriers in Japan. These barriers include regulations and standards that vary from international norms (e.g., practices regarding the use of foreign clinical data when approving pharmaceutical products and medical devices).
- Continue to seek an agreement on social security and totalizations, whereby the calculation of benefits would be based on the period of time contributions were made in either country. The aim is to reduce the costs of social security contributions and to help protect the pension rights of employees in both countries.
- Continue to press for enhanced capacity and access to a number of new slots at Narita Airport and for expanded code-sharing rights for services beyond Japan.

IMPROVING ACCESS FOR TRADE IN GOODS

Agri-food, Fish and Beverage Products

Japan is the world's largest net importer of agri-food, fish and beverage products. In 2003, Canadian agri-food and fish exports to Japan amounted to \$2.8 billion. Canada seeks further access to this important market and has concerns regarding Japanese tariffs, safeguards, labelling of food derived from genetically modified organisms, and import requirements dealing with food sanitation and plant health. Most market access concessions and tariff reductions will be discussed in the context of the current WTO negotiations; however, other issues are being addressed at the bilateral level.

Safeguard Measure on Chilled and Frozen Pork

Canada remains concerned about the Japanese snapback safeguard measure on pork, which raises the minimum import price by approximately 25%. This safeguard was triggered again on August 1, 2003, for the third consecutive year and will last until the end of the current fiscal year, March 31, 2004. Since it was first triggered in 1995, the snapback safeguard

has been a significant issue for the Canadian pork sector. As currently administered, this measure creates considerable market fluctuations for Canadian suppliers and Japanese importers. Canada is seeking a resolution that addresses the concerns of both exporters and importers by eliminating the negative market impacts of the snapback safeguard. This is a priority in the WTO agriculture negotiations.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Japan imposed a temporary ban on imports of all ruminant animals, meat and meat products including embryos and ova. Pork or poultry meat sausages made with ruminant casings from Canada and sausages made with cattle casings are banned. Canada has kept all its trading partners, including Japan, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Safeguards on Beef

During the Uruguay Round of WTO/GATT negotiations, Japan's trading partners agreed to a specific safeguard mechanism for beef that would protect domestic producers from sudden import surges. The occurrence of bovine spongiform encephalopathy in Japan in September 2001 resulted in unusually low consumption of beef and a decline in both domestic and imported beef sales. Since then, the market has recovered, domestic production is now above pre-BSE levels and live animal prices are above the government-recommended price band. In contrast, import volumes, while they have grown, are still below pre-BSE levels. Although the growth in beef imports in 2003 is merely a return toward the former level of imports, not a surge, it nevertheless triggered, on August 1, the application of the safeguard on chilled beef, which lasted until March 31, 2004. The outcomes are higher prices for importers and a slower recovery of Japan's beef market, neither of which are advantageous for Japanese producers or consumers. Although the import of beef from Canada has been banned since May 21, 2003, the embassy has expressed, jointly with the embassies of other

beef-exporting countries, a serious concern about the implementation of the snapback safeguard. Despite this, the Council on Customs, Tariff, Foreign Exchange and Other Transactions has recommended to the Ministry of Finance (MOF) that the beef safeguard system be maintained in the following fiscal year (i.e., from April 1, 2004 to March 31, 2005). If this recommendation is accepted by the MOF, then the related law will most likely be approved.

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

Tariffs on Canola Oil

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

Tariff Classification on Femur Bone

At some customs houses, pork femur bones imported into Japan (mainly for ramen noodle broth) under a duty-free tariff classification have not been allowed to

enter because of the percentage of meat and cartilage residue remaining on the bone. It is virtually impossible to export low-priced products such as pork femur bone to Japan given the differential tariff system for pork. Japanese customs houses have issued an internal notice applicable from November 1, 2003, defining the percentage of residue to bone permitted tariff-free as 20% or less. Although products with this percentage will be allowed entry, this percentage is even lower than the percentage that was previously used by custom houses. The Canadian Embassy will be pursuing this issue with Japanese authorities jointly with the U.S. Embassy.

Building Products and Housing

The building products industry in Japan is subject to a complex web of laws and regulations that set out necessary product standards and uses that Canadian exporters must address. Although some progress was made during the recent amending of the Building Standards Law (BSL) and Japan Agricultural Standards (JAS) Law, major issues remain that severely restrict Canadian market access.

Of particular importance are the many aspects of the Building Standards Law relating to fire that are unique to Japan, arbitrary and prescriptive, and limit wood construction by rendering wood frame buildings less economical. Japanese regulations are criticized for being difficult to understand, unnecessarily complex and costly, developed without public participation and slow to change. Strength and stiffness measures for Canadian products differ from those assigned to competing Scandinavian and Japanese products. This has damaged Canada's position in the market. Given new and existing international building technologies and materials, Japan is being urged to revise the BSL as it relates to test methods, criteria and related restrictions, and to adopt international codes, standards and practices.

Canada has a number of formal and informal connections in place with the Japanese government. Both joint work between Canadian and Japanese scientists (e.g., the Canada–Japan Research and Development Workshop) and formal bilateral meetings provide the opportunity to press for change. In 2004, Canada will host the Canada–U.S.–Japan talks on Japanese building codes and standards that take place in the Building Experts Committee and the Japan

Agricultural Standards Technical Committee. These meetings will provide a good opportunity for Canada to demonstrate its regulatory system and use of building products.

Value-added Building Products

Under the revised BSL, a new system of testing and approval bodies has been established that has proven challenging for Canadian manufacturers. Currently, only Japanese and East Asian testing and approval bodies are authorized under the new system. In many cases, the process to be used by a Canadian manufacturer is not clear. In 2002, an initiative to analyze this system and possibly develop a road map was launched; this work will continue during 2004.

Japan implemented in 2003 regulations concerning emissions of volatile organic compounds (VOCs) from building products. Most products involving glues must now be tested before they can be sold in Japan. Products, such as kitchen cabinets, that use particleboard and medium-density fibreboard are especially affected. At present, only formaldehyde is subject to these regulations, but Japan is studying the addition of other VOCs. Canada has won some concessions, for example, the exemption of hardwood flooring from the regulations and the acceptance of foreign test data. We have not yet been successful, however, in getting a Canadian evaluation body accredited by the Japanese government, and we will continue to press for a compromise on this. It should be said that a number of Canadian manufacturers have received certification under the new regulations.

Tariffs on Spruce-Pine-Fir Lumber and Panel Products

Japan's system of tariff classification distinguishes between the species and dimensions of lumber, regardless of end use. As a consequence, spruce-pine-fir (SPF) lumber imports, worth over \$400 million per year to Canada, are subject to duties ranging from 4.8% to 6%, whereas other species imported for the same purpose enter duty-free. The 6% tariff on softwood plywood and oriented strand board is also considered to severely limit Canadian exports and unfairly favour the domestic Japanese industry. Industry estimates that the 6% tariff on plywood reduces Canadian exports by \$100 million per year.

Reducing SPF and softwood plywood tariffs are a high priority for Canada and will be pursued in the WTO multilateral trade negotiations.

Three- and Four-Storey Wood Frame Construction

Japanese demand for three- and four-storey mixed-use buildings is significant. Although three-storey wood frame apartment construction is allowed in quasi-fire protection (QFP) zones, it is restricted to a maximum of only 1,500 square metres, and requires uneconomic property line setbacks and limiting distance calculations for exterior wall openings. These restrictions unfairly and sharply limit the use of three-storey wood construction. There is also a size limit of 3,000 square metres for non-QFP zones, and Japanese fire-wall specifications (which could allow larger structures) are unfair and not based on science. Four-storey wood frame construction is increasingly being used in North America, but it faces a difficult and unclear regulatory regime in Japan.

A performance-based system for fireproof buildings was introduced under the revised BSL. Canada, working closely with the Japanese two-by-four Association, has undertaken supervised tests that have passed the required performance standard for quasi-fireproof construction. Canada will press for formal approval of this new technology.

Performance Requirements for Lumber for Traditional Housing

Canada is working to ensure that performance criteria being developed for traditional post-and-beam houses in Japan are not based solely on the use of Japanese-grown sugi lumber (which is one of the weaker species) but recognize other species (e.g., hemlock) that offer greater strength in construction. Canada is also concerned that the process for implementing new products and technologies following formal approval is unnecessarily difficult and needs streamlining.

Agricultural Standards for Building Products: Standards Review Process

Under the revised Japan Agricultural Standards system, specific standards are now reviewed on a five-year cycle. Canada continues to work with

the Ministry of Agriculture, Forestry and Fisheries (MAFF) in various technical forums, where it is providing data to assist in the revision of building product standards. In 2003, MAFF launched a review of standards for dimension lumber—a significant product for Canada, which supplies about 95% of the Japanese market. Canada participated fully in the process and is satisfied with the outcome to date.

Outstanding issues with other standards remain, however, and full participation by Canadian technical experts in the review of future standards is by no means assured. Canada will press for relaxation of the five-year review cycle to provide for interim amendment of standards. Such a relaxation would enable the introduction of new technology and the resolution of outstanding issues on a more frequent basis. Canada will work to ensure that Canadian stakeholders have access to the MAFF process and full membership on the review committees. It will also continue to press for fairer treatment of Canadian products.

Japan Agricultural Standards for Building Products: Inspection and Approval System

Canada's standards system for lumber and composite products has been recognized as equivalent to the JAS system, and three Canadian organizations (The Canadian Plywood Association, Canadian Mill Services Association, Northern Forest Products Association/Council of Forest Industries) have been recognized.

IMPROVING ACCESS FOR TRADE IN SERVICES

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

and professional services such as accounting, legal, and education and training. This market is of particular interest for Canada's newly created Language Industries Association, AILIA.

Environmental Services

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

Telecommunications Services

The Japanese telecommunications services market has become quite accessible to foreign companies. All restrictions on foreign investment in the telecommunications sector, except in Nippon Telegraph and Telephone Corporation, have been lifted. Canada particularly welcomes the new Telecommunications Business Law (which was amended in 2003 and will come into force in the spring of 2004), especially its provisions removing the obligation to notify tariffs for certain services. This law is seen as a significant step toward Japanese competitiveness in the telecommunications sector.

Air Transport

In the context of our long-standing and productive bilateral air transport relationship, Canadian officials have tried over the past two years to obtain for Canada enhanced capacity, access to some of the new slots available on the second runway at Narita Airport and code-sharing rights for services beyond Japan. Air Canada and All Nippon Airways have been working very closely to develop their commercial plans, especially for code sharing beyond Japan—which Japanese negotiators have declined to permit. It is nevertheless clear that the intensified commercial cooperation will benefit both airlines.

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

Financial Services

Japan has made significant progress in deregulating the financial services sector in recent years. With the entry of many foreign financial services providers (although they still do not hold major market shares) and with continued progress by Japanese banks toward a more sustainable business model, Japan's financial sector is well on the path to a major transformation. Competition is increasing in the marketplace, non-performing loans are on a downward trend and credit practices are improving. Clearly, this has led to more competition, more consumer choice and a more resilient financial system.

However, the system remains vulnerable to economic shocks, and new lending is still low as banks remain focused on balance-sheet improvements. Continued and robust financial sector reform, increased shareholder accountability and aggressive action on industrial revitalization are required to foster a dynamic, sustainable and efficient financial sector.

Macro-level Supervision Is Required

In order to introduce genuine and transparent regulatory reform, a regulatory system that focuses on macro-level financial supervision is desirable. Despite improvements, Japan's financial supervisors still apply a micro-level regulatory and supervisory approach, often focusing too much on day-to-day operations of financial institutions or on product approval. Applying an *ex post* supervisory approach that promotes efficiency and competition, rather than the current *a priori* regulation and supervisory approach, would enhance the efficiency of Japan's financial system without harming its safety or soundness.

The Public Sector Should Play by the Same Rules

Canada continues to have a general concern that most government financial institutions in Japan provide services that significantly overlap with those that private sector institutions can provide efficiently. The involvement of government enterprises in the financial sector, some of which (such as the Postal Savings system or *yucho* and the Postal Life Insurance system or *kampo*) have very sizable market shares, distorts competition significantly and could be seen to contravene Japan's GATS commitments.

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

Banking and Securities

Most major industrialized countries have moved to a regulatory framework that allows for greater synergies among the financial activities of financial conglomerates. However, the requirement in Japan for so-called firewalls between banking and securities has been a concern for Canadian financial institutions operating in Japan. It imposes considerable additional costs and does not allow for optimal efficiencies for clients. In some cases it may actually increase risk. Canada continues to request that the Financial Services Agency (FSA) offer a more flexible regime that is sensitive to smaller institutions' need to contain costs. A longer-term goal, which fits with the FSA's current efforts to define a medium-term "vision" for the financial sector, should be to break down the wall between the lines of business noted above.

Life Insurance

The Postal Life Insurance system or *kampo* holds about 40% of life insurance assets in Japan. The passage of legislation to establish the Postal Service Public Corporation is a concrete step toward reform of the institution, but this legislation does not alter

the fact that *kampo* is not subject to the same kind of regulatory oversight, or operating costs, as private sector life insurers. *Kampo* is not subject to the Insurance Business Law, the Law on Sales of Financial Products or the Commercial Code. Moreover, it is not supervised by the Financial Services Agency. Finally, its products are fully guaranteed by the government, thus *kampo* is not required to contribute to the Policyholders Protection Corporation (PPC). It is Canada's view that *kampo* should be made to operate on the same basis as private life insurers, both foreign and domestic.

As well, to ensure that *kampo* as presently constructed does not encroach further on private sector activities, it should be instructed not to create new products that could be provided by private sector insurers. Failing this, any new financial services activities proposed for the Postal Financial Institutions (whether *kampo* or *yucho*) should be subject to full public notice and comment, and the responses given due consideration by officials before their introduction. Any proposed report or legislation relating to the financial services activities of *yucho* should be subject to full public notice, comment and consideration before policy decisions are taken by the government.

With regard to funding of the aforementioned Policyholders Protection Corporation, the current scheme will expire in early 2006. The Japanese government should consult closely with domestic and foreign life insurance firms, in a transparent and open manner, when developing and implementing any legislation associated with reform of the PPC.

With the purported goal of ensuring consumer transparency, the Financial Services Agency applies a micro-level analysis to product and rate approvals. This supervisory approach hinders competition because it is time-consuming and stifles innovation. There has been some progress since the establishment of the FSA, but Canada requests that greater efforts be made to move from a system of prior product approval to a system of notification combined with clear standards of disclosure. Supervision should move to a focus on solvency ratios, capital adequacy and appropriate modern accounting practices.

It is also worth noting that the Reserve Basis and Solvency Margin calculation used for variable annuities currently does not follow accepted international

practice. The Canadian reserve method is one that may prove useful in moving toward one that does.

Finally, there has been progress in deregulating the distribution of insurance products: this is a positive development that should be built upon, by expanding the scope of previous reforms to new product classes. Specifically, the so-called *kosei-in* rule, which limits the products that agencies can sell in-house, should be eliminated, and commissions paid by life insurers to corporate agencies that sell insurance policies to the agency itself (or affiliated companies) should be allowed.

Legal Services

Canada applauds the enactment of legislation that substantially eliminates restrictions on freedom of association between Japanese lawyers and foreign lawyers qualified under Japanese law. We will follow closely the development of rules and regulations to implement this legislation.

In the context of the market access phase of the ongoing GATS negotiations, Canada has requested that Japan improve its market access commitments with respect to legal services. Canada has requested, in particular, that Japan eliminate its commercial presence requirements and the limitations on the duration of stay for foreign legal consultants advising on foreign and public international law.

Investment

In his general policy speech to the Diet on January 31, 2003, Japanese Prime Minister Koizumi strongly welcomed foreign direct investment as a way to help revive the country's economy and achieve sustained growth. He stated, "Foreign direct investment in Japan will bring new technology and innovative management methods, and will also lead to greater employment opportunities. We will take measures to present Japan as an attractive destination for foreign firms, with the aim of doubling the cumulative amount of investment in five years."

This was the first time a Japanese Prime Minister had mentioned foreign direct investment in an opening annual policy address. Following this address, the Japanese government took some positive steps to support inward foreign direct investment. In April

2003, the Ministry of Economy, Trade and Industry (METI) announced a project to support regional activities to attract foreign enterprises, selecting five local areas with unique plans to promote FDI to serve as models for other local governments. Then, in May 2003 the Japan External Trade Relations Organization (JETRO) established a one-stop “Invest Japan” centre offering information and support to potential investors.

Japan was the largest recipient of Canadian direct investment in the Asia/Oceania region in 2002. On a prefectural level, there has been growing interest in attracting foreign investment, especially into high-technology areas, although so far growth in Canadian direct investment has been concentrated in the important urban areas. As an example of Canadian investment, Manulife is the 16th largest foreign employer in Japan.

Nevertheless, long-standing structural impediments continue to hamper foreign direct investment into Japan. These impediments include a high overall cost structure, bureaucratic discretion, exclusive buyer–supplier networks, a lack of labour mobility, bankruptcy regulations and a lack of financial transparency, all of which serve to inhibit the establishment and acquisition of businesses. It is still very difficult for foreign investors to execute ownership transfers and merger and acquisition transactions. Some areas that still need to be opened to investment are medical care, education, retailing, utilities, agriculture, postal and delivery services, and financial advisory and asset management services.

Japan is the third largest source of foreign direct investment in Canada (behind the United States and the European Union), with a stock of \$8.6 billion. Although Japan’s relationship with Canada through its FDI greatly enhances the ability of Canadian industry to compete in the global marketplace, Canada accounts for a relatively minor portion of Japanese FDI worldwide.

The lion’s share of Japanese FDI is in the automotive industries. This investment trend has maintained its impetus over the past years, reflecting the strong showing of Japanese autos in the North American marketplace. Canada’s efforts to attract Japanese investment into Canada focused on six priority sectors in 2003. These sectors were agri-food, auto-

motive, chemicals, information and communication technologies, life sciences, and metals and minerals.

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

China

Overview

The People’s Republic of China (excluding the Hong Kong Special Administrative Region) is Canada’s fourth largest export market. In 2003, Canada’s total exports of goods to China amounted to \$4.7 billion, an increase of 13% over 2002. Total imports of goods from China increased to \$18.6 billion in 2003, up 16% over 2002.

China has accelerated the pace of trade and investment liberalization and reaffirmed its commitment to social and economic reform. China has become one of the drivers of the world economy and an increasingly important market for the world’s goods and services. Only the United States, the European Union and Japan import more. Moreover, in 2002 China attracted more foreign direct investment than any other country.

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

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, particularly with regard to certain types of economic activity and to projects whose scale exceeds a threshold size.

As a component of the regular, high-level contact between the two countries, Canada and China engage in formal consultations to review matters related to economic development, trade and investment. This process is facilitated through regular bilateral discussions, the most prominent being the Joint Economic and Trade Committee. These country-to-country meetings give Canada the opportunity to register its concerns regarding access to the Chinese market and to communicate its views on economic development and the importance of transparency and rules-based market economics.

China formally acceded to the WTO on December 11, 2001. The extensive commitments China has made to substantially lower barriers to foreign trade and investment, as well as to increase the predictability and transparency of its trade regime, will engender profound changes in its economy and governance. This will result in significant new business opportunities for Canadian exporters and investors in sectors in which Canadian firms have a competitive advantage. China will continue to face considerable challenges in fully implementing the agreement 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 engage China in this regard.

Market Access Results in 2003

- Chinese authorities provided approval for one Canadian bank to provide local currency services in Guangzhou, for another bank to invest in a mutual fund management company and for two Canadian life insurance companies to start work on expansion into Beijing.
- Chinese authorities replaced the variable duty on newsprint with a lower and simpler *ad valorem* tariff.
- In response to concerns raised by Canada and other countries with regard to regulations on foreign financial services companies, Chinese

authorities formally proposed lowering the minimum capital requirements for the expansion of life insurance companies.

- China agreed to cease subdividing tariff rate quotas between imports for processing and re-export and imports for domestic consumption.
- The Canadian Food Inspection Agency (CFIA) and China's State Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) signed a memorandum of understanding on cooperation in plant health.
- The CFIA and AQSIQ signed terms of reference for a working group on micro-organisms and chemical residues.
- The CFIA and AQSIQ signed a memorandum of understanding for cooperation on transmissible spongiform encephalopathies (TSEs).
- New Chinese regulations for meat and seafood products were implemented without trade disruption.

Canada's Market Access Priorities for 2004

- Continue representations aimed at the removal of China's BSE measures on imports from Canada.
- Continue to address problems arising from the new regulations that China has put in place in the banking, insurance and fund management sectors.
- Continue to address industry's concerns about burdensome Chinese requirements to re-certify under the new system of certification and accreditation.
- Continue to urge China to reduce the value-added tax on small and medium-sized aircraft, such as regional jets, so that it is the same as the value-added tax on large aircraft.
- Continue to urge China to reduce the tariff line for canola seed to bring it in line with that for soy beans.
- Continue representations aimed at removing China's restrictions on the import of deer and elk products.
- Continue to address market access problems that arise and seek improved access for Canadian agricultural products.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

World Trade Organizations Accession Negotiations

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

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

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

Implementation of China's WTO Commitments: Highlights

On January 1, 2003, China made a broad range of tariff reductions, including on key Canadian exports and potential exports. Examples include tariff reductions for whisky (from 37.5% to 28.3%),

compression moulds for plastics (from 3% to 0%) and most shrimp (11.3% to 5%).

China has committed to undertake the following actions in 2004:

- further reduce a wide range of tariffs;
- further expand the tariff rate quotas for canola oil and wheat;
- allow foreign majority ownership in the distribution services sector;
- further lift geographic restrictions in the insurance and banking sector; and
- allow foreign banks to provide local currency services to Chinese enterprises (and not just foreign enterprises and individuals).

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

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, China issued a ban on the import of Canadian live cattle, meat and meat products, including embryos, semen, tallow and feed of ruminant animal origin. Imports from Canada of cosmetics are also affected by the ban. Canada has kept all its trading partners, including China, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Deer, Elk and Their Products

In August, Canada learned that China had suspended the issuance of permits for the import of antler velvet from Canada, due to concerns about chronic wasting disease (CWD) in deer and elk. Canada is involved in technical discussions with Chinese authorities aimed at the resumption of trade.

Regulations on Imports of Genetically Modified Organisms

China's Ministry of Agriculture promulgated the country's new Safety Regulation of Agricultural Genetically Modified Organisms (GMOs) in

May 2001. Since then, the Ministry of Health and the State Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) have each issued separate and supplementary regulations. These new regulations cover the labelling, research, production, marketing, movement and import/export of agricultural GMOs.

China introduced interim measures in March 2002 to allow trade to continue while field testing and approval of foreign-approved agricultural GMOs were completed. The interim measures, which were initially in effect until December 20, 2002, were later extended with some modifications to September 20, 2003, and then again extended to April 20, 2004. Further, the Ministry of Health has indicated that it will coordinate with the Ministry of Agriculture on timing and on minimizing duplication. AQSIQ has not yet confirmed the timetable for implementing its measures.

Canadian canola and canola oil shipments are taking place under the interim regulations without apparent disruption.

Field trials for the seven canola events have been completed, and food safety tests on canola started on October 8, 2003. The research results will need to be assessed in time for the permanent safety certificates to be issued prior to the April 20, 2004, termination date for the interim measures.

Standards and Technical Regulations

Since joining the WTO, China has been moving ahead with implementation of its WTO commitments on standards and technical regulations. These commitments include establishing contact points for enquiries about regulations, improving transparency by notifying the WTO of new regulations being put in place, and ensuring that standards, technical regulations and conformity-assessment procedures are the same for imported and domestic products. China has created a new compulsory product certification system called China Compulsory Certification (CCC). The products covered by the regulations (more than 130 types) need to obtain the compulsory CCC mark before being exported to China. The certification mark, administered by the Certification and Accreditation Administration of the People's Republic of China (CNCA), is to certify both domestic

and imported products, and it replaces previous marks applied separately to foreign and domestic products. However, there have been some problems with this transition: suppliers have expressed concern about burdensome Chinese requirements to re-certify under the new system, including often-costly inspection visits to the manufacturer. Canada will continue to monitor the issue.

Financial Services

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

Canadian-style Wood Frame Construction

Although only about 10% of urban Chinese own their homes, the Chinese government is now encouraging its people to buy housing. Estimates of the Chinese housing construction market range from 9 million to 18 million units per year. Although it has come under consideration as an option only in the last few years, the Canadian system of wood frame construction is gaining recognition within the developing villa and townhouse niche in China. China's wood frame housing construction market could increase to 50,000 units annually by 2012, from a total of 500 two-by-four style homes in 2002. This offers a potential opportunity to Canadian producers of dimension lumber, oriented strand board and/or plywood, as well as suppliers of related goods and services to China.

Value-added Tax on Aircraft

Large aircraft (above 25 tonnes) currently face a value-added tax (VAT) of 5%, which is significantly

lower than the 17% VAT applied to smaller aircraft, such as regional jets produced in Canada. Canada argues that current practice is hindering the efforts of China's airlines to develop extensive regional networks and to increase their ability to respond to changes in demand. Moreover, it is limiting the ability of all producers of smaller aircraft to sell their products in China.

Investment

In 2002, China was the largest recipient of foreign direct investment in the world. Canadian direct investment in China has shown a consistent increase in recent years, rising from \$419 million in 1997 to \$667 million in 2002 (while Canada received \$224 million in direct Chinese investment during 2002). The average size of new investments is steadily increasing, and the profile of the average investment is shifting from small family enterprises to the more sophisticated operations of multinational companies. China is also starting to become a source of FDI, and we are increasing efforts to attract such investment.

Hong Kong

Overview

The Hong Kong Special Administrative Region maintains considerable autonomy in economic, trade, cultural and political affairs and will continue to do so until 2047. Hong Kong has its own fiscal system and does not remit revenue to the central government, nor does the central government levy any taxes. The Hong Kong dollar, pegged to the U.S. dollar, continues to circulate as legal tender, and Hong Kong remains a free port and a separate customs territory. This distinct economy is a member of APEC and the WTO under the name "Hong Kong, People's Republic of China."

Hong Kong remains an aggressively free market economy, with virtually no barriers to entry or doing business. With the exception of excise taxes on autos, fuel, liquor and cigarettes, there are no duties, taxes or quotas on imported goods.

Canadian firms continue to enjoy excellent access to the Hong Kong market, and there are no outstanding bilateral market access issues. Canada exported \$1.1 billion to Hong Kong in 2003 and also imported goods worth \$858 million. Trade in services is extensive. The Hong Kong government continues to develop its own economic, fiscal and budgetary policies based on its own interests and its dependence on trade. The policy of minimal government interference in the economy continues to apply equally with respect to trade in goods and services and to investment. In addition to being an attractive market in its own right, Hong Kong remains China's largest port and the entrepot for most of China's value-added imports and exports, particularly goods exported by small and medium-sized enterprises.

Canada's Market Access Priorities for 2004

- Continue representations aimed at the removal of Hong Kong's BSE measures on imports from Canada.

Bovine Spongiform Encephalopathy

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

Investment

In 2002, Hong Kong was the eighth largest investor in Canada with \$5 billion (stocks) in investments. Canada has invested \$2.8 billion in Hong Kong. There was a significant concentration of Canadian investments in the financial services sector. In general, Canadian investors face few difficulties in the Hong Kong market, which features excellent infrastructure, low taxes and high-value-added direct investment.

Republic of Korea

Overview

Korea is Canada's third largest market in the Asia-Pacific region (after Japan and China) and the eighth largest worldwide. In 2003, Canada's goods exports to the Republic of Korea totalled \$1.9 billion, and imports were \$5.1 billion. Although considerable liberalization occurred after Korea's 1997 financial crisis, Korea's economic policies are typically designed to protect its domestic industry, encourage exports and discourage imports of some value-added goods. Generally, tariffs, import licences, import procedures and social norms all favour the import of raw materials and industrial equipment rather than finished goods. Despite the liberalization of import procedures over the past few years, significant obstacles and rigidities remain a problem in some areas.

The Canada–Korea Special Partnership Working Group (SPWG), launched in April 1994, aims to increase cooperation in areas such as trade, investment, industrial cooperation and technology transfer. One subcommittee of the SPWG specifically addresses market access issues, while another subcommittee was created to further cooperation between the private sectors of both countries. This subcommittee is initially focusing on manufacturing technology, new materials, biotechnology, the environment, energy and telecommunications.

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

Market Access Results in 2003

- BSE restrictions on imports of Canadian bovine semen were removed on October 2, 2003.
- Imports of Canadian pet food containing chicken meat were approved on September 24, 2003.
- The approval of sales of seal meat for human consumption led to a number of shipments of Canadian product.
- A tariff rate quota of 160,000 tonnes on feed peas was announced in 2004, at a tariff rate of 2%.

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing Korea's BSE measures on imports from Canada.
- Continue annual monitoring of applied tariffs that are subject to possible adjustment to ensure that market access for Canadian products is not reduced.
- Continue to press for tariff parity between competing products such as canola oil, soybean oil, feed peas and other feed ingredients.
- Press for changes to soybean tendering procedures.
- Press for agreement on phytosanitary protocols for tomatoes and seed potatoes.
- Implement phytosanitary protocols for marking approved softwood lumber.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Korea issued a ban on the import of Canadian ruminant animals, meat and meat products, including semen, embryos, ova, tallow, gelatine and collagen. The ban also applied to pet food containing poultry meat meal, poultry offal or poultry bone meal. In October, Korean authorities agreed to resume imports of Canadian bovine semen. Canada has kept all its trading partners, including Korea, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Canola Oil

Canada continues to seek tariff parity between canola oil and other competing products such as soybean oil, as well as the elimination of tariff escalation (i.e., low tariffs on raw materials and higher tariffs on processed goods). Korea applies a tariff of 10% on crude canola oil and 30% on refined. Canola oil is the only imported edible oil that is subject to this treatment. In comparison, Korea applies a 5.75% tariff on crude and refined soybean oil.

Seal Meat

Since 1995, Canadian exporters have complained that Korea maintains a *de facto* prohibition on the import of seal meat. In March 2003, following numerous Canadian representations, Korea amended its Food Code to permit the import of seal meat for human consumption. In April 2003, Canadian and Korean officials agreed on specific Korean import requirements for seal meat. Since then, Canada has exported approximately \$1.2 million worth of seal meat to Korea.

Tariffs on Feed Peas

Korea will provide differential tariff treatment for dried peas for human consumption and feed peas through the creation of a tariff rate quota (TRQ) on feed peas. Korea will apply a tariff of 27.9% on dried peas and 2.0% on feed peas for the first 160,000 tonnes. Imports above this volume will face the 27.9% tariff. The tariffs for most of the competing feed products are as follows: barley 20%, wheat (for milling and feed) 2.6% and lupin seed 0%. The new TRQ will allow the import of feed peas, up to the quota level, at a reduced rate, which is an improvement over previous years, but which does not provide complete parity with other feed ingredients. Parity will be sought as an outcome of the WTO agriculture negotiations.

Soybean Tendering

The tendering system administered by Korea's Agricultural Fishery Marketing Corporation prevents Korean importers from accessing the high-quality, premium-priced food-grade soybeans that Canada produces. Korea has a tariff rate quota for food-grade soybeans, which is administered through international open tender, mainly on the basis of price. This is an inflexible system that has no provision for price premiums for quality, tendering on small lots or long-term contracting. Korea produces less than 40% of its soybean requirements and cannot currently fully supply its soy-processing sector with the required high-quality product.

Softwood Lumber

Korea currently requires all Canadian softwood lumber exports to be kiln-dried and heat-treated in order to eliminate plant pests. Following a meeting in

July 2003, Korea has accepted, in principle, heat treatment without a phytosanitary certificate from the Canadian Food Inspection Agency (CFIA). Under the new system, phytosanitary certificates would be replaced with a lumber stamp. The CFIA and Korea's National Plant Quarantine Service are currently in discussions regarding the proposed change.

Tomatoes

British Columbia's tomato exports are prohibited in Korea because of the presence of tobacco blue mould (TBM) in Canada at large, even though British Columbia is free of TBM and tomatoes are not carriers of TBM. Canada is proposing mitigating measures to eliminate any phytosanitary risk based on biological data supplied earlier to Korea.

Seed Potatoes

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

Chronic Wasting Disease: Elk and Deer Products

On December 28, 2000, Korea suspended the import of live cervids and their products (elk and deer products) from Canada and the United States, because of concerns relating to chronic wasting disease. Canada is involved in technical discussions with Korean authorities aimed at the resumption of trade.

Honey

The current tariff rate quota for honey is 420 tonnes; the tariff on in-quota imports is 20%, while the tariff over the TRQ is 243%. Under the competitive bidding process for the import rights, the price of the honey becomes the determining factor, and it is difficult for higher-quality or higher-priced products to compete within the TRQ.

Government Procurement

On September 1, 2001, a Canada–Korea Telecommunications Equipment Procurement Agreement was implemented. This agreement provided Canadian suppliers with non-discriminatory

access to procurements by Korea Telecom (KT), Korea's state-owned telecommunications services provider. In 2002, the Korean government sold all its interest in KT and petitioned Canada to remove all references to KT from the Agreement. Canada is reviewing this request.

Chinese Taipei (Taiwan)

Overview

In 2003, Canadian goods exports to Chinese Taipei totalled \$1.2 billion. Chinese Taipei ranked fifth among Canada's export markets in the Asia-Pacific region, accounting for 5.5% of our total exports to the region. Canada's goods imports from Chinese Taipei in 2003 totalled \$3.8 billion.

Chinese Taipei's economy remains highly dependent on trade. It is a major exporter, as well as a major source of investment for the region, particularly to China and Southeast Asia, and it is growing in importance as a regional importer. These factors have provided a strong impetus for trade and market liberalization, though domestic political pressures continue to lead to protectionist measures that affect agricultural and agri-food imports.

Chinese Taipei officially joined the WTO on January 1, 2002. As Chinese Taipei is a prominent export market for Canadian suppliers, its formal membership in the international rules-based trading system was an important development. Chinese Taipei has undertaken significant reforms and liberalization in order to bring its economic and trade regime into line with the WTO framework. A key outcome has been the disappearance of the preferential market access previously accorded to U.S. suppliers in a number of product areas, consistent with Chinese Taipei's obligations under the WTO principle of non-discrimination.

World Trade Organization Accession Negotiations

Chinese Taipei implemented many improvements in market access for goods and services under terms negotiated with Canada and other WTO members. These include the elimination of tariffs in some sectors under so-called zero-for-zeros, and reductions,

and/or harmonization for goods of export interest to Canada such as chemicals, pharmaceuticals, paper and medical devices. Prior to acceding to the WTO, Chinese Taipei had already signed on to the Information Technology Agreement, agreeing to full tariff elimination on specified information technology products. Canadian suppliers have gained more secure and open access for these and other industrial priorities, including plywood and aerospace products. Canadian suppliers' access to the Chinese Taipei market for automobiles remains favourable, as Chinese Taipei proceeds to liberalize its import regime in this sector.

Access has also improved for a range of agricultural, agri-food and fish and seafood products, including meat products, grains, oilseeds and processed foods. Accession means equitable and more open access for suppliers of canola oil and beef. The dismantling of earlier import prohibitions on products such as meat offal and several fish products, including mackerel, sardines and herring, was begun before accession and has now been fully implemented.

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

Chinese Taipei has also applied to join the WTO Agreement on Government Procurement and has agreed to market access concessions in the Agreement for some key sectors of interest to Canada. Chinese Taipei has stated that its public tendering procedures will be fair, transparent and consistent with the WTO Agreement on Government Procurement. Despite this commitment, public project tendering often continues to favour local suppliers.

Market Access Results in 2003

- Chinese Taipei lifted its BSE-related ban on bovine, sheep and goat embryos from Canada.
- Amendments were made to Chinese Taipei's building code, providing for wood frame construction using softwood lumber.

Canada's Market Access Priorities for 2004

- Continue representations aimed at the removal of Chinese Taipei's remaining BSE measures on imports from Canada.

- Monitor Chinese Taipei's compliance with its WTO accession commitments, as they affect access for products of interest to Canadian firms.
- Encourage the accession of Chinese Taipei to the WTO Agreement on Government Procurement.
- Reach agreement on phytosanitary protocols for greenhouse cluster tomatoes (tomatoes on the vine), table potatoes and seed potatoes.
- Press for tariff parity on feed peas and soybean meal.
- Encourage Chinese Taipei to undertake early inspections and approval of Canadian pet food plants so that they can resume exports.
- Encourage Chinese Taipei to adopt a standard for imported icewine.
- Encourage Chinese Taipei to recognize the equivalency of wood product standards.
- Continue to encourage Chinese Taipei to recognise the equivalency of Canadian and U.S. quality control regimes for medical devices.
- Continue to press for advance notification of any changes in Chinese Taipei's regulations affecting trade in agricultural products.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Chinese Taipei issued a temporary ban on the import of Canadian meat and meat products including offals, animal feed, tallow and embryos. Effective August 27, Chinese Taipei authorities lifted the ban on imports of bovine, sheep and goat embryos from Canada. Canada has kept all its trading partners, including Chinese Taipei, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Greenhouse Cluster Tomatoes

Both the Canadian greenhouse vegetable industry and importers in Chinese Taipei have indicated a desire to initiate trade in greenhouse cluster tomatoes (tomatoes on the vine). Canada is seeking access to the Chinese Taipei market for greenhouse-grown cluster tomatoes

from British Columbia. Chinese Taipei insists on restricting imports of tomatoes unless they can be certified as originating from an area free from potato late blight type A-2, a disease to which tomatoes are susceptible and which is found around the world.

Table and Seed Potatoes

Chinese Taipei currently bans the import of seed potatoes from all Canadian provinces except New Brunswick, Prince Edward Island and Quebec for fear of A-2 late blight and golden nematode. Chinese Taipei will not accept results from the Canadian Food Inspection Agency's seed potato certification program, which deals with detecting A-2 across Canada. Compared with its requirements for other countries, Chinese Taipei's treatment of Canada is inconsistent.

Feed Peas

Chinese Taipei applies the same import tariff rate to feed peas as it does to peas for human consumption. This puts Canadian feed peas at a competitive disadvantage when compared with soybean meal, which is used for animal feed. In WTO accession negotiations, Chinese Taipei agreed to reduce the tariff on feed peas to zero by 2007. The tariff rate on soybean meal is already zero.

Icewine

The Canadian Vintners Association and member wineries have complained that the presence of "false icewine" in Chinese Taipei is undercutting the market for Canadian Vintners Quality Alliance (VQA) icewine and is having a negative impact on consumers' appreciation and acceptance of the product. Canada would like Chinese Taipei to follow the lead of Canada, the United States and European Union countries, which have adopted minimum quality standards for icewine.

Pet Food

Chinese Taipei currently bans the import of all Canadian pet food products derived from ruminant raw materials. Prior to Canada's May BSE announcement, pet food products were an important Canadian export to Chinese Taipei. Canada is involved in technical discussions to allow the resumption of trade.

Softwood Lumber

Chinese Taipei is a major market for softwood lumber, but only for the lower grades used for packaging. While the market is open to increased use of wood in construction, the opportunity is limited by the concern of financial and insurance institutions that the island's wood building code is insufficiently prescriptive to assure adequate quality. In May 2003, Chinese Taipei made changes to sections of its wood building code, providing for wood frame construction using softwood lumber. The Canadian wood products industry is working with the Chinese Taipei government to achieve recognition of the equivalency of Canadian and Chinese Taipei wood products standards for various wood building products, as well as to deliver technical training to local industry.

Consultations on Regulatory Changes in Agriculture

Canada has expressed concerns to the Board of Foreign Trade about the lack of prior consultation on changes to regulations affecting the import of food products. For example, in 2002, a change in the application of import regulations on live seafood (e.g., lobster) was implemented without prior notification to foreign trade offices or importers. This change disrupted the import of highly perishable live lobsters from Canada. In 2003, Chinese Taipei's notification of amendments to its quarantine requirements for the import of plants or plant products was received by Canada on the implementation date, leaving no time to request clarification prior to the measures being applied.

Australia

Overview

In 2003, two-way trade between Canada and Australia was worth \$3.1 billion, a 5.8% increase on the previous year. During the year, Canada exported \$1.4 billion worth of goods to Australia, while imports were valued at \$1.6 billion. Canada's main exports continue to be car engines, automotive parts, military equipment, telecommunications components and pork.

The Canadian stock of direct investment surged in 2002, growing from \$4.5 billion in 2001 to \$8.5 billion in 2002. This was due mainly to the large number of Canadian firms that have acquired interests in the Australian mining industry. It is now estimated that Canadian firms own over 30% of Australia's gold resources.

There are natural affinities between Canada and Australia arising from similar legal and regulatory systems, comparable federal structures and a trading relationship reaching back over 100 years. Most trade between the two countries takes place at most-favoured-nation rates, although a substantial amount benefits from duty-free rates.

Some important non-tariff measures have an impact on market access. Measures affecting access for Canadian goods and services include product standards, government procurement practices (which vary from sector to sector, and from Commonwealth to state levels) and trade-remedy laws (Australia is among the most active users of anti-dumping and countervailing duty statutes).

Canada's Market Access Priorities for 2004

- Continue to make representations for improved access for Canadian pork and to ensure that the final Australian import risk analysis expected to be released in 2004 does not result in any further restrictions.
- Closely follow the application of anti-dumping duties that Australia imposed on Canadian exports of mill liners.

IMPROVING ACCESS FOR TRADE IN GOODS

Pork

For several years, Australia has maintained requirements preventing the import of unprocessed pork products from Canada and other countries due to alleged animal health concerns relating to porcine respiratory and reproductive syndrome (PRRS). The measures require that imported pork must be cooked either in the exporting country or in a transitional facility in Australia. These measures raise the cost of Canadian pork and exclude Canadian exporters

from direct access to Australia's retail market. Canada considers the restrictions to be more trade-restrictive than necessary and is continuing representations to resolve the matter.

In May 1998, Australian authorities proposed a generic Import Risk Analysis (IRA) on imported pork and sought public comments. In January 2001, Biosecurity Australia published an issues paper upon which Canada provided comments, including on the PRRS issue. Canada provided comments again on October 13, 2003, on the draft IRA that was released on August 12, 2003. The final IRA should be released sometime in 2004. Canada will be following closely and will make all necessary representations to press for improved access and to ensure that the results of the IRA do not result in further restrictions against Canadian products.

Mill Liners

On December 2, 2002, the Australian Customs Service initiated an investigation into the alleged dumping of iron and steel grinding mill liners exported to Australia from Canada. On September 17, 2003, the Australian Minister for Justice and Customs accepted the recommendation of the Customs Service that anti-dumping duties be imposed, for five years, on Canadian exports of mill liners. The dumping margin has been estimated at between 80% and 90%. The Canadian industry is concerned that Australian authorities did not consider all the relevant facts prior to their decision to impose anti-dumping duties on Canadian exports. The Government of Canada supports the Canadian industry in its request for a review of the decision and will closely follow upcoming decisions on that issue.

New Zealand

Overview

In 2003, Canada exported \$414 million in goods to New Zealand and imported \$541 million in return. In 2003, Canada's leading exports to New Zealand were fertilizer, frozen pork and lumber. Canada was New Zealand's largest foreign supplier of each of these products. In the same period, Canada's leading

imports from New Zealand were fresh, chilled and frozen beef and lamb meat. Total Canadian direct investment in New Zealand was \$1.1 billion in 2002.

Canada's Market Access Priorities for 2004

- Canada will continue to press for improved access for Canadian pork.
- Canada will also make representations for early removal of New Zealand's trout import ban and to ensure that it is not extended beyond the current expiry date of November 4, 2004.

IMPROVING ACCESS FOR TRADE IN GOODS

Pork

Effective September 1, 2001, New Zealand imposed new requirements suspending the import of unprocessed pork products from Canada and other countries due to alleged animal health concerns relating to porcine respiratory and reproductive syndrome. The new measure requires that imported pork must be cooked either in the exporting country or in a transitional facility in New Zealand. These measures raise the cost of Canadian pork and exclude Canadian exporters from direct access to New Zealand's retail market. Canada considers the measure to be more trade-restrictive than necessary and is continuing representations to resolve the matter.

Trout

In December 1998, New Zealand imposed a "temporary" ban on the import of trout. Since then, the ban has been extended several times. In October 2001, New Zealand announced the replacement of the existing Customs Import (Trout) Prohibition Order 1998 with an entirely new one, which will be in force through November 7, 2004. New Zealand claims that the ban is for conservation reasons. Canada's position is that New Zealand has provided no scientific information to justify the ban on conservation or any other grounds, and that it is inconsistent with New Zealand's international trade obligations. Canada is continuing to make representations, bilaterally and multilaterally, to remove the ban.

Southeast Asia

Southeast Asia is now recognized as having some of the most dynamic economies in the world. It also offers better market access than some of the other Asia-Pacific nations. As a group, this region (members of the Association of Southeast Asian Nations [ASEAN] and East Timor) is one of Canada's major trading partners, ranking fourth after North America, Europe and East Asia. Canada trades approximately \$10 billion every year with Southeast Asia. Southeast Asia is also one of the major regions for Canadian investment abroad, which was valued in excess of \$11 billion in 2002.

Structural reform and trade liberalization in most of the Southeast Asian countries have helped to improve trade prospects. All Southeast Asian states, with the exception of East Timor, are members of the World Trade Organization or in the process of accession. This is testimony to the progress these countries have made in opening markets, strengthening institutional structures and adopting international standards. ASEAN WTO members have been active in the Doha Round of negotiations, and they agree that continued progress is tied to gains in agricultural and non-agricultural market access and rules such as those on anti-dumping, subsidies and countervailing measures. Southeast Asia, like Canada, stands to gain from better access to global markets for services and from commercially significant liberalization in goods. The requirements of the ASEAN Free Trade Area (AFTA) and bilateral trade agreements have also contributed to deregulation in the region.

SINGAPORE

Overview

With one of the world's most open and transparent trade and investment regimes, Singapore presents few barriers to Canadian goods and services, with the most notable exceptions being measures relating to alcohol, tobacco and chewing gum. The same open policy also extends to immigration, because the Singapore government actively encourages foreign talent to live and work in the city state.

Singapore continues to offer significant growth opportunities for Canadian exporters and investors. In 2003, Canadian exports of goods to Singapore were valued at \$438 million; down 24% from a record high in 2002, but still above the previous four years. Goods imports from Singapore amounted to \$1 billion, for an increase of 5.5% over the same period. Bilateral trade in services between the two countries also continues to grow and was valued at \$963 million in 2001.

Already the region's premier transportation hub, Singapore has invested heavily to position itself as a Southeast Asian hub for information and communication technologies, financial services, life sciences and cultural industries. To support the development of these knowledge-based industries, in 2001 Singapore converted the Intellectual Property Office of Singapore into a statutory board under the Ministry of Law.

In October 2001, Canada and Singapore launched negotiations toward a bilateral free trade agreement. Since then, Canada and Singapore have held six full rounds of negotiations, which covered a comprehensive range of topics, including trade in goods, customs procedures, trade facilitation, services, financial services, investment, government procurement, competition and telecommunications. The trade agreement, when complete, will improve the ability of Canadian firms to export to, and invest in, Singapore in areas still subject to barriers. In addition, Canada is pursuing parallel instruments on labour and environmental cooperation with Singapore.

Market Access Results in 2003

- Three rounds of negotiations toward a bilateral free trade agreement were completed in 2003.

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing Singapore's BSE measures on imports from Canada.
- Work toward resolving outstanding issues in the bilateral free trade negotiations, in order to remove remaining barriers to trade in goods and improve overall access for Canadian investment and services in sectors such as financial and professional services.

■ Continue to encourage discussions on outstanding matters with a view to concluding an Air Transport Agreement, following consultations between the respective airlines or completion of Canada's air policy review.

Bovine Spongiform Encephalopathy

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

Investment

The Singapore government actively encourages foreign investment, particularly in leading-edge technologies and knowledge-based fields. There are no local equity requirements for setting up business in Singapore and no restrictions on foreign ownership or control, except for a few sectors in which a special government licence or approval is required. These include banking, finance, and insurance and stockbroking firms. Public utilities and telecommunications companies also face restrictions on foreign investment.

Singapore's direct investment in Canada declined slightly to \$116 million in 2002, while Canadian direct investment in Singapore continued to grow, reaching \$5.1 billion the same year. The bulk of Canadian investment in Singapore is in the form of regional offices in services sectors such as banking and insurance; however, Canadian firms in the information and communication technologies, aerospace, tourism, environmental and retail sectors also have a presence.

INDONESIA

Overview

With a population of over 230 million people, Indonesia offers a large and growing domestic market and a large workforce, diverse and abundant natural resources, reasonably modern telecommunications

and other infrastructure, and a strategic location along some of the world's major trade routes. If Indonesia continues to move toward implementing a sound policy framework and maintains a strong commitment to reform, it should be able to take advantage of its fundamental economic strengths to restore investor confidence.

In 2003, the Indonesian economy grew by an estimated 4%, with domestic private consumption and higher prices for commodity exports replacing foreign investment as the country's primary engine of economic growth. Inflation has been reduced from nearly 60% in 1998 to around 5% in 2003. Foreign reserves have risen, and Indonesia's rupiah currency is hovering at a three-year high. Indonesia's debt burden, which swelled to over 100% of gross domestic product after the 1997–1998 crash, has since eased to about two thirds of GDP.

On the fiscal and monetary policy fronts, Indonesia is performing well. This fact has not gone unnoticed: several international rating agencies recently upgraded Indonesia's sovereign currency ratings in light of rising external reserves and falling debt. At the end of 2003, the government exited the International Monetary Fund (IMF) economic support program and entered a post-IMF economic reform program. This program aims to maintain investor confidence in the economy by creating macroeconomic stability (through low inflation levels and healthy foreign exchange reserves), continuing banking sector reform, and increasing investment, export and employment opportunities.

Indonesia remains one of Canada's largest export markets in Southeast Asia and was the third largest investment destination in Asia (after Japan and Singapore) in 2002. In 2003, Canadian exports to Indonesia were valued at \$450 million, while imports totalled \$927 million. Commodities are still the top export to Indonesia, making up 65% of total exports. As long as the consumption boom continues, there will be opportunities for Canadian-made consumer goods.

Canadian investment in Indonesia employs tens of thousands of Indonesians, and total recorded Canadian direct investment exceeded \$3.7 billion in 2002. The flow of any new, large-scale Canadian direct investment has slowed in the last year due to

continued uncertainties about the future political and economic climate in Indonesia. However, new small and medium-sized Canadian investments, which are more immune to political uncertainties, have continued. Within these new investments, there has been a shift from manufacturing for the domestic market to manufacturing for export markets as a result of lower production costs.

Canada's Market Access Priorities for 2004

- Continue representations aimed at the removal of Indonesia's BSE measures on imports from Canada.
- Continue to engage the Indonesian government to prevent the imposition of increased tariffs on soybeans, corn and other agricultural products such as wheat.
- Continue to ensure that Indonesia's "check price" system, does not disadvantage Canadian exporters.
- Press for reform of Indonesia's corporate bankruptcy laws to require ministerial approval for bankruptcy declarations against all financial institutions.
- Urge the Indonesian government to establish clear regulations in the wireless fixed-line telecommunications industry, including on tariffs, spectrum allocation and roaming issues. The lack of regulation restricts growth in the industry, impeding market access for Canadian exporters of information and communication technologies.
- Seek a more transparent tender process for government procurement of goods and services, particularly on contracts that require external financing and on which financial proposals should form part of the tender document.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Indonesia issued a ban on the import from Canada of live ruminants, meat and meat products, including offal, embryos and semen. Canada has kept all its trading partners, including Indonesia, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Investment

Canadian investors continue to face numerous challenges in accessing the Indonesian market. Existing and potential investors cite concerns that include political uncertainty, unclear decentralization, uneven implementation of economic reforms, unreliable judicial system, security issues and the treatment of existing investors. On the plus side, Indonesia's government is making efforts to reform the judicial system and to streamline the time-consuming procedures for obtaining the licences and permits required for investment in Indonesia.

With new investments currently under consideration by Canadian firms in the manufacturing and domestic services sectors, as well as in the resource-based sector, Canadian investment is expected to increase once broader stability returns to the country and obstacles to investment security are removed. The Government of Canada will continue to monitor developments and to make representations on behalf of specific companies.

THAILAND

Overview

Thailand is experiencing very positive economic developments. Thailand's GDP growth rate for 2003 was up approximately 6%. On July 31, 2003, Thailand completed an early repayment—one year ahead of schedule—of its outstanding obligations to the International Monetary Fund under a Stand-by Arrangement. Foreign multinationals are announcing major direct investments, in particular in the automotive sector. Major infrastructure projects are planned. Thailand still faces challenges, notably in its financial sector, but its prospects remain bright, particularly with additional reform legislation.

Thailand is one of Canada's largest export markets in Southeast Asia. Between 1998 and 2003, Canadian exports to Thailand increased by 48% to \$450 million. Canadian imports from Thailand over the same period grew by 47%, reaching a record high of \$1.9 billion in 2003. Canadian investment in Thailand also continues to grow and was valued at over \$1.1 billion in 2002.

Thailand is actively pursuing regional and bilateral free trade agreements with a number of countries including Australia, China and India. During the APEC meetings held in Bangkok in October 2003, Thailand and the United States announced their intention to launch negotiations for a Bilateral Free Trade Arrangement in 2004.

Market Access Results in 2003

- In late 2003, the Thai government announced tariff reductions on a broad range of agricultural and industrial goods. Of particular interest to Canada is the reduction in the duty rate for dried peas/feed peas from 42% to 30% (effective October 2003).
- The Bank of Thailand has undertaken various initiatives to strengthen corporate governance, which include a financial directors' handbook (released in March 2002), minimum disclosure requirements, requirements for internal and external auditors, and certain anti-money-laundering and anti-terrorism requirements. It has also permitted higher foreign equity limits in banking (which led foreign investors to take substantial majority ownership of four Thai commercial banks).

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing Thailand's BSE measures on imports from Canada.
- Continue to pursue further reductions in the tariff for dried peas in order to have it reduced even further to 5%, where it would compare favourably with those for other feed ingredients.
- Seek to clarify import licensing requirements for various goods of export interest to Canada.
- Monitor the progress of Thailand's plan to liberalize basic telecommunications by 2006 and encourage the government to establish the National Telecommunications Commission as an independent regulator.
- Monitor intellectual property legislation and enforcement.
- Monitor the draft legislation relating to computer crime, personal data protection, national information infrastructure and electronic funds transfer.

Bovine Spongiform Encephalopathy

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

VIETNAM

Overview

Canada's exports to Vietnam in 2003 totalled \$85 million, up 20% from 2002. Canada's imports of Vietnamese products were \$334 million in 2003. Vietnam is absorbing increasing levels of debt associated with infrastructure development; however, the International Monetary Fund is satisfied that the fundamental economic indicators are sound. Vietnam is also dependent on large amounts of financial aid.

Economic reform continues to be a top priority. To this end, Vietnam is making an effort to play a greater role in the international trading system. It is pursuing membership in the WTO and has set 2005 as a target date for accession. WTO members agree that attaining such a goal will depend on heightened efforts on the part of the Vietnamese government. Vietnam tabled revised market access offers on goods and services in 2003, and its accession negotiations are expected to intensify in 2004. Vietnam's eventual membership in the WTO will consolidate its economic reforms and yield a more open, stable and predictable environment for Canadian traders and investors. Canada supports Vietnam's efforts to accede, including through the provision of accession-related technical assistance. Canada is also co-sponsoring the APEC Economic Integration Program, which aims to help six Southeast Asian developing economies (including Vietnam) strengthen their trade facilitation and negotiating capacities.

Vietnam recognizes that attracting foreign investment is key to expanding economic opportunities, and it is trying to reform its legal and judicial systems to create a more welcoming environment for such

investment. Despite urging by foreign donors, including Canada, to accelerate the equitization (purchase of shares by employees) of state-owned enterprises and dismantle competitive barriers against private sector companies (notably in regard to access to finance and land), progress by the government has been slow.

Market Access Results in 2003

- BSE-related restrictions on imports of bovine semen and embryos from Canada were removed.
- The Vietnamese government continued to signal its commitment to WTO accession by 2005.
- The Vietnamese government continued to implement key reforms, including in the financial sector and with respect to private sector development. Canadian businesses will benefit from improved commercial conditions, although Vietnam remains far less developed than the regional average.

Canada's Market Access Priorities for 2004

- Identify and secure improved treatment for Canada's goods and services in bilateral negotiations with Vietnam. Support multilateral efforts at the WTO designed to assist Vietnam in developing a consistent, transparent and open trade policy regime.
- Continue to play a positive role, through bilateral programs and in forums such as APEC (which Vietnam will host in 2006), in the development of a capacity-building program to assist Vietnam in developing and implementing trade and economic policy.
- Continue representations aimed at removing Vietnam's remaining BSE measures on imports from Canada.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Vietnam issued a temporary ban on the import of Canadian live ruminants, meat and meat products, including semen and embryos. In September, the Canadian Food Inspection Agency and Vietnamese officials reached agreement on bovine semen and embryo health certificates, thereby allowing trade to resume. Canada has kept all its trading partners, including Vietnam, fully informed of the

results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

MALAYSIA

Overview

Although Malaysia has a relatively small population, it is Canada's largest trading partner in Southeast Asia. Canadian goods exports totalled \$475 million in 2003, a 3.4% decrease over 2002. In 2003, imports from Malaysia were valued at \$2.3 billion. Trade in services is far more balanced. As the Malaysian economy picks up momentum in 2004, overall trade is expected to continue to grow. Canada is exporting an increasing amount of information technology and telecommunications parts and equipment. Sales of Canadian newsprint have been reduced to a trickle since April 2003, when newsprint originating in or exported from Canada was hit with a 33.55% anti-dumping duty.

Malaysia has a relatively open, market-oriented economy. This situation is expected to continue under the administration of new Prime Minister Abdullah Badawi. Export Development Canada has identified, however, that "politics" play a role in the economy. The transparency of the decision-making process for projects involving the government requires that Canadian exporters appoint strong local representatives. The Malaysian government allows 100% foreign equity in investments in most sectors. A notable exception is the oil and gas sector, where joint ventures with Petronas are the norm.

Market Access Results in 2003

- Malaysia's high-profile campaign against piracy of software and movies has achieved its most significant results with the closure of some of the factories manufacturing the pirated items.

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing Malaysia's BSE measures on imports from Canada.
- Monitor intellectual property legislation and enforcement.

- Pursue further trade liberalization for goods and services in the context of WTO negotiations, especially in the banking sector, which holds potential for Canadian companies. No banking licence has been issued to a foreign bank for more than 20 years, and existing foreign banks face numerous restrictions in expanding retail banking.
- Continue to press for further progress in corporate governance and judicial reform, the lack of which acts as a non-tariff barrier to Canadian trade and investment.
- Continue to monitor the application of the anti-dumping duty on Canadian newsprint and encourage Canadian exporters to participate in the process.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Malaysia issued a temporary suspension on the import of live bovines, meat and meat products, including offal. Canada has kept all its trading partners, including Malaysia, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Financial Services Sector

The financial services sector in Malaysia is relatively well developed, with local expertise available in most areas. Although the financial system is considered to be restrictive, there are encouraging signs that the government is moving toward a more liberal approach. The aim of the government's Financial Sector Master Plan is to first improve the strength of the financial sector before opening it up to greater foreign competition in the medium term. The Master Plan covers a 10-year time frame to 2010. The government also has a detailed framework for developing Malaysia's capital markets over the next 10 years, which is set out in the Capital Markets Master Plan. The plan is published by the Securities Commission, the central authority in the regulation and development of the securities and futures industries in Malaysia.

Banking

With respect to commercial banking there are 14 foreign banks with approximately 140 branches. The 51 domestic banking institutions have been merged into just 10 banking groups, and further mergers are now believed likely. The 10 merged banks are Maybank, Alliance Bank, Bumiputra-Commerce bank, Affin Bank, Public Bank, Southern Bank, RHB-Utama Bank, EON Bank, Arab-Malaysian Bank and Hong Leong Bank. The foreign banks account for approximately 25% of total banking assets. Investment banks, where American banks dominate, are subject to more stringent restrictions than are commercial banks. Bank of Nova Scotia, the only Canadian bank with a presence in Malaysia, has one branch in Kuala Lumpur offering a comprehensive range of banking products.

Insurance

The insurance market in Malaysia is still highly regulated. However, it is also to be opened up to foreign competition under the Financial Sector Master Plan. This will occur only when the domestic industry is fully consolidated (from 64 to 15 domestic insurers by 2010) and ready, by government standards, to withstand international competition. Foreign firms are already benefiting alongside domestic ones from some of the liberalizing measures, including the lifting of restrictions on outsourcing and employment of expatriates, as well as a generally more flexible attitude by Bank Negara. The 14 foreign firms that are already active in Malaysia hold about 40% of the equity and 50% of the assets in the market, and they dominate the fast-growing life insurance market. Canadian insurer Manulife will be represented in this market now that it has acquired the worldwide assets of John Hancock.

Islamic Banking and Finance

Malaysia is promoting itself as a centre for Islamic banking and finance. It already has a comprehensive system with a new Islamic Financial Services Board to set standards and harmonize practices, and a centralized syariah council in the Bank Negara. The Islamic banking sector currently accounts for a little less than 10% of the banking sector's total assets, and the government has a target of doubling this to 20% by 2010.

Selective Capital Controls

The selective capital controls introduced on September 1, 1998, have been amended on several occasions since then. All that remains in effect from May 2001 are measures focused on preventing international trading in the ringgit and, in particular, in hedging against it. These measures include restrictions on borrowing in ringgit, on transfers between ringgit and foreign exchange accounts, and on amounts of foreign currency that can be brought into the country. Despite a current discussion on the merits of this policy, the ringgit remains pegged to the U.S. dollar at a ratio of 3.8 to 1.

PHILIPPINES

Overview

The Philippines economy has demonstrated a surprising degree of resilience to the external and internal pressures of the last two years (9/11, SARS, domestic political instability, etc.). GDP growth has been reasonably robust in recent years, averaging about 4% per year and exceeding that of several other Southeast Asian countries. Key elements contributing to this resilience, and in keeping domestic consumption buoyant, have been the large agricultural base of the economy and substantial foreign currency remittances from overseas Filipinos (estimated at more than \$11.2 billion annually).

On the trade front, the Philippines recorded a worsening trade deficit in the first half of 2003: imports expanded by 10%, while exports edged up only 2%. Together with the approach of elections in May 2004, this deficit has provoked increasingly protectionist reflexes, with the government openly stating its commitment not to exceed its minimum multilateral trade liberalization commitments. In some cases, tariffs have been increased to the maximum bound rate. The government has been particularly sensitive to agricultural imports, imposing restrictions on meat, dairy and vegetable imports. However, some of these measures were later withdrawn, because they were inconsistent with the country's international obligations. At the WTO conference in Cancun, the

Philippines joined the G20 grouping; it remains ambivalent about the Singapore issues, and is committed to special and differential treatment for developing countries.

In 2003, Canadian exports to the Philippines reached \$373 million, with the principal exports being agri-food, machinery, forest products and metals and minerals. The 2003 figures represent a 20% rise from the preceding year. The Philippines enjoy a positive trade balance with Canada, with Canadian imports valued at \$974 million in 2003, largely in electronics.

In 2002, Canadian direct investment in the Philippines was valued at \$374 million. The largest Canadian investors in the Philippines are Sun Life and Manulife, respectively the second and fourth largest insurers in the country.

Market Access Results in 2003

- The Philippines announced on February 27, 2003, the indefinite postponement of the implementation of Memorandum Order No. 7, Series of 2002. Memorandum Order No. 7 would have required all plants wishing to export milk, meat and their products to the Philippines to submit to quarterly verification, by an independent inspector accredited by the Philippine government, of their compliance with Philippine Hazard Analysis and Critical Control Point (HACCP) standards.
- The Philippine Department of Agriculture (DA) lifted its BSE-related ban on imports of Canadian boneless beef.
- Canada contributed to a World Bank–led program of support to the Philippine government's January 2003 policy initiative aimed at revitalizing the mining sector. This contribution, in particular the funding of a best practices study tour to Canada for civil society stakeholders, led to a significantly better understanding of the mining industry by these stakeholders and to the elaboration of a new National Minerals Policy. This change in the investment environment will ease some of the challenges faced by Canadian investors in the sector.
- Canada pressed for due process on a number of specific investment cases.

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing the Philippines' remaining BSE measures on beef and beef product imports from Canada.
- Work with the CFIA to resolve, with the Philippine Bureau of Plant Industry, certain phytosanitary issues that have prevented the entry of Canadian seed potatoes into the Philippines.
- Continue to advocate the benefits of a socially and environmentally responsible mining industry.
- Monitor and assess the investment climate for transparency and due process.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, the Philippines issued a ban on the import of beef and beef products, including bone-in beef and offal from Canada. In August 2003, the Philippines agreed to resume trade in boneless beef, subject to agreement on the terms of a health certificate. In November, both sides agreed to such a certificate. Canada has kept all its trading partners, including the Philippines, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Meat and Dairy Import Inspection

The Department of Agriculture has attempted to establish various forms of inspection regimes over the last three years, including Memorandum Order No. 7, Series of 2002 referred to above under "Market Access Results in 2003." It will be important to monitor closely any attempts to resurrect such requirements and to react quickly if the requirements are unduly trade-restrictive.

OTHER ISSUES

Investment

Despite official efforts to encourage investment, government decision making can be complex and slow and the legal environment highly unpredictable, resulting in a poor investment climate in certain sectors. Moreover, recent decisions, such as the Supreme Court's annulment of the contract to build the new airport terminal in Manila, have deterred foreign investors. Prospective Canadian investments in infrastructure have been hampered by less than fully predictable government decision making on build-operate-transfer (BOT) and private sector participation projects, with (in particular) the law and regulations on unsolicited BOTs subject to differing interpretations. Foreign investment in some other sectors (e.g., in call centres and in manufacturing and financial services) has proven more straightforward.

Mining

The Philippines possesses substantial mineral resources, and a number of Canadian juniors are conducting exploration or developing projects in the Philippines. However, the investment climate, which appears welcoming on paper, has been a challenging and unpredictable one for foreign investors. Reasons include an ambivalent national government, limited administrative capacity in the regions, weak governance, lack of clarity on Indigenous peoples' ancestral rights, a long-pending challenge of the Mining Act before the Supreme Court and vigorous opposition to mineral development from civil society and church groups. Canadian investors will be monitoring the implementation of new government policy to revitalize the mining sector.

Canada's ongoing advocacy that mineral development can be implemented in a responsible fashion, consistent with sustainable development principles, contributed to the Philippine government's January 2003 decision to switch "from tolerance to support" of the industry. Canada's subsequent participation in a World Bank-led program in support of the Philippine government resulted in a confirmation of this policy and in an Executive Order on the National Policy

Agenda on Revitalizing Mining in the Philippines (approved by the President in early January 2004). A best practices study tour to Canada for civil society stakeholders led to a better understanding of industry issues by such stakeholders. The result should be an improved investment environment, which will reduce some of the challenges faced by Canadian investors in the sector.

CAMBODIA

Overview

Cambodia has a relatively open, market-oriented economy. Government reforms are ongoing, and Canadian exporters do not face major market access barriers. At nearly 5%, Cambodia's economic growth continued in 2003, although it was slowed by SARS and an upsurge in terrorism in the region. The World Bank is predicting a strong 6% for 2004. Local partners are key to doing business successfully in Cambodia, since informal barriers to trade do exist. In 2003, Canadian exports to Cambodia totalled \$1.4 million, while imports from Cambodia shot up to \$84 million as a result of the Market Access Memorandum of Understanding signed in January 2003.

WTO members approved the accession of Cambodia in September 2003, making it one of only two least-developed countries (with Nepal) to gain access to the organization since 1995. Canada supported Cambodia's efforts to accede through the provision of accession-related technical assistance. Canada is also co-sponsoring the APEC Economic Integration Program, which aims to help six Southeast Asian developing economies (including Cambodia) strengthen their trade facilitation and negotiation capacities. In addition, Cambodia has developed a Pro-Poor Trade Policy Strategy, as one of three pilot countries under an integrated framework supported by six core agencies (International Monetary Fund, U.S. International Trade Commission, UN Conference on Trade and Development, UN Development Programme, World Bank and WTO).

Market Access Results in 2003

- Cambodia's application to accede to the WTO was accepted.

- Canada and Cambodia signed the Market Access Memorandum of Understanding, pursuant to Canada's least-developed countries initiative, which permits virtually all exports to enter Canada without duties or quotas.

Canada's Market Access Priorities for 2004

- Advocate the interests of Canadian companies with respect to projects funded by international financial institutions.
- Continue to press for progress in corporate governance and judicial reform, which act as non-tariff barriers to Canadian trade and investment.

BRUNEI DARUSSALAM

Overview

Brunei has a stable and open market economy, with the second highest per capita income in Southeast Asia. Its macroeconomic stability is underpinned by the state's strong cash flow from its oil and gas revenue, international reserves and the currency peg (the Brunei dollar is pegged to the Singapore dollar). Brunei's domestic economy is dominated by the public sector and by government spending on development projects. The economy has been stagnant since 1997 as a result of setbacks to the government's fiscal position following the Amedeo crisis combined with low energy prices. Business confidence and domestic consumption are further affected by the government's limited ability to execute new spending programs, and by the slow pace of reforms aimed at improving competitiveness and the ability to attract foreign investment.

There are a few major barriers to trade, such as Halal requirements for certain foodstuffs and the prohibition of alcohol. There is also the need to rely on local partners for government contracts on significant projects. Bilateral trade between Canada and Brunei totalled \$6.9 million in 2003, down from \$8 million in 2002. However, Canadian exports to Brunei grew from \$1.8 million to \$2.7 million over the same period.

Market Access Results in 2003

- The Brunei government has recognized Canadian expertise in trade policy matters and issued a specific request for Canada to train Brunei's negotiators on trade in services and on technical barriers to trade.
- The Brunei government has signalled its continued commitment to the Doha Round of WTO negotiations.

Canada's Market Access Priorities for 2004

- Continue efforts to change the prevailing tradition of "Buy British" and "Study in Britain", building on recent successes in the higher education, environmental and defence areas.

India

Overview

The Indian economy has changed dramatically since 1991, when India launched its program of economic reforms, which included trade and investment liberalization. The process of economic reform continues, although somewhat hesitantly. All remaining quantitative restrictions were lifted in April 2001. The insurance sector has been opened to private and foreign investment, and other sectors (e.g., garments, leather, toys and shoes) have been removed from the list of sectors reserved for small-scale industries. Further liberalization of capital account, foreign direct investment (FDI) and foreign institutional investment rules have been affected. Legislation to reform the bankruptcy, competition, pension and labour regimes, among others, is also being contemplated.

Total Canada-India merchandise trade for 2003 reached almost \$2 billion, with a balance of \$690 million in India's favour. Pulp and paper products, peas and pulses, and aerospace and telecommunications are Canada's principal exports to India.

Canadian direct investment in India is relatively modest, but increased to \$144 million in 2002 from \$84 million in 1991.

Indian investment in Canada remains underreported for a variety of technical reasons. The opening of

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

India constitutes a potentially significant market for almost any type of good, service or technology. An expanding middle class, estimated at up to 300 million, is interested in new products from around the world and offers significant opportunities for trade and investment, particularly in areas of traditional Canadian strength. These include telecommunications, transportation, agriculture and agri-food, power equipment and engineering, infrastructure development, oil and gas, mining and environmental technology, as well as banking, insurance and educational services.

Market Access Results in 2003

- Following representations from many affected exporting countries, including high-level representations from Canada, India has removed the 4% Special Additional Duty (SAD) on all products imported into India.
- India has eased restrictions on foreign direct investment in the banking sector, increasing the cap from 49% to 74%.

Canada's Market Access Priorities for 2004

- Press India to respect its WTO Information Technology Agreement commitments, particularly for telecommunications equipment.
- Monitor and respond to the increasing number of trade remedy actions being taken by India against Canadian imports (such as the anti-dumping actions on newsprint, vitamin C, specialty steel and pentaerythritol and the safeguard case against edible oil).
- Continue to seek approval of Canada's export certificate for pork.

- Ensure that restrictions on the import of bovine semen and cattle from Canada to India are eased.
- Seek tariff reduction on canola oil, as well as advocate Canada's opposition to the application of safeguard duties on canola oil.
- Seek to reduce the level of tariffs on spirits.
- Seek removal of the requirement for methyl bromide fumigation of pulses exported to India.
- Continue to assist India in reforming its telecommunications policies and regulations.
- Press India to raise its ceiling on foreign direct investment in the insurance sector.
- Seek clarification of, and amendments to, India's recently announced Plant Quarantine Order, to minimize any negative impact on Canadian agricultural exports.

IMPROVING ACCESS FOR TRADE IN GOODS

Agricultural and Manufactured Goods

In 2003, Canada's agri-food exports to India totalled \$105 million, the majority of which were pulses (peas, chickpeas and lentils). Canadian exporters are seeking improved access to the Indian market for some agricultural products but have concerns regarding India's import requirements and tariff levels. India's recently announced regulation, the Plant Quarantine Order of 2003, has introduced additional import requirements that may further restrict Canadian exports.

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

Pork

India does not accept Canada's pork export certificate, because it does not cover some diseases that India requires to be reported. Canada views India's requirements as more trade-restrictive than necessary and will continue to press for changes so that trade can take place.

Bovine Semen

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

Canola Oil

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

Spirits

While India consumes about 75 million cases of spirits, imported products account for only 1% of this total. Domestic producers are powerful and have successfully lobbied the government to restrict imports to a minimum. India's basic rate of duty is slated to fall from 210% to 150% over five years, as per its WTO commitment—this rate is still far higher than that in other developing countries, such as China. After the elimination of quantity restrictions, the Indian government imposed an additional duty on imported spirits in the range of 20% to 150%, depending on landed cost. The states also impose their own duties. As a result, the total effective rate of duty on imported spirits can range between 400% and 700%. Canada is seeking reductions in these tariffs.

Pulses

Under its recently announced Plant Quarantine Order, India requires the fumigation of pulses with methyl bromide at 28 degrees Celsius before import

into India is permitted. Methyl bromide is an ozone-depleting substance and is to be phased out in the near future. In addition, climatic conditions in Canada do not allow for the fumigation at the required temperature during the winter months. Canada is making representations requesting the removal of this condition.

OTHER ISSUES

Investment

Foreign direct investment is allowed in all sectors, except for arms and ammunition, atomic energy, railways, coal and lignite, ore mining, magnesium, chrome, sulphur, gypsum, gold, diamonds, copper and zinc. FDI ceilings and approval processes have been progressively relaxed, so that a large majority of sectors are now open to 100% foreign equity, via the automatic approval route. Ceilings on FDI remain in a diminishing number of sectors, such as insurance (26%), defence (26%), banking (74%) and telecom (49%). In certain cases, approval has to be obtained from the Foreign Investment Promotion Board under the Ministry of Finance. Canada is seeking increases in these ceilings.

Pakistan

Overview

Having identified financial and fiscal reform as a priority, the government, under President Pervez Musharraf, has implemented a comprehensive agenda of macroeconomic stabilization and economic and governance reforms. Various positive effects are apparent, such as reduced domestic and external debt, reduced fiscal deficit, low inflation, an increased current account surplus, and foreign exchange reserves of more than \$17 billion. Pakistan's economy has grown at a pace not seen in the preceding six years. In 2003, GDP grew at 5.1%, exceeding the target rate of 4.5% and almost doubling the 2.8% growth rate achieved in 2002.

Despite the comprehensive reform package and improvements in the fiscal position, poverty has grown from 17% to 30% since 1993 and the number of poor has increased by 12 million. There are great discrepancies in the distribution of income between Punjab and the other three provinces, and between the military and the civilian population. The bulk of the national budget is spent on debt servicing, the military and administration. Very little is spent on health and education. These factors, coupled with an unstable political environment, call into question the sustainability of Pakistan's economic reforms.

Notwithstanding a challenging business environment, bilateral trade totalled \$575 million in 2003, on Canadian exports of \$300 million and imports of \$275 million. For Canada, this is a remarkable improvement over 2002 numbers, when Pakistan held a 3:1 trade surplus with our country. The increase in Canadian exports can be largely attributed to growth in canola shipments, once canola was accorded tariff treatment equivalent to that for other rapeseeds. Canadian export figures are likely much higher when account is taken of transshipment through the United States and regional ports such as Dubai and Singapore. Additionally, services, in particular engineering, are excluded from the figures. Textiles and clothing represent the lead export item from Pakistan; pulses and lentils are the ranking Canadian export.

Aware of the benefits associated with North American Free Trade Agreement, Pakistani entrepreneurs have been showing interest in Canada both as a business and an investment destination. In addition to local (sourcing) offices in Canada, initiatives have included investment proposals for textile plant, automotive parts and banking.

Market Access Results in 2003

- Canola seed exports from Canada surged once Canada secured tariff treatment for canola seed on par with that given by Pakistan to other rapeseeds.

Canada's Market Access Priorities for 2004

- Continue to press the Pakistani government to ease the ban on the import of livestock from Canada.

- Engage Pakistan's Ministry of Food, Agriculture and Livestock, on behalf of the Canadian Food Inspection Agency, to secure acceptance of new proposed certificates for the export of bovine embryos from Canada.
- Monitor the Pakistani government's process for developing biosafety guidelines for GMOs. Canada will follow these developments to ensure that the guidelines do not adversely affect the import of agricultural products from Canada.
- Monitor the intention of the Pakistani government to ratify the Cape Town Convention. This agreement establishes an international legal framework for modern asset-based financing and leasing to protect high-value equipment, including aircraft and aircraft engines. Such ratification would help open doors to the Canadian aerospace industry in Pakistan.

IMPROVING ACCESS FOR TRADE IN GOODS

Canola Seed

In 2003, exports of canola seed to Pakistan surged, following two years of zero sales and the resolution of technical issues surrounding the tariff treatment of canola seed. Prior to 2001, a 15% goods and services tax applied to the import of canola seed for oil extraction. However, there was no such tax on the import of other rapeseeds, which were under a different tariff coding. Canada sought tax and tariff parity between canola seed and other rapeseed. After making its case to the Central Board of Revenue of Pakistan, Canada obtained, in October 2001, assurances that canola would be treated under the same Harmonized System coding as other rapeseeds. Outstanding technical difficulties, however, were not resolved until November 2003, the year in which sales of canola seeds exceeded \$140 million.

OTHER ISSUES

Intellectual Property

The implementation of intellectual property guidelines remains a challenge in Pakistan. The Pakistani government has prepared the ordinance for a domestic Intellectual Property Rights Organization, which will deal with trade-related aspects of intellectual property rights or TRIPs. The ordinance is in the final stages of Cabinet approval before presentation to the legislature for conversion into law.

Investment

The Pakistani government, in order to boost the national economy and attract investment, has decided to frame a law prohibiting the freezing of bank accounts and assets. The move was inspired by the events of 1998, when, following the nuclear test, the Pakistani government froze foreign currency accounts through an emergency decree aimed at averting a potential economic crash. Preparation of the legislation has begun, and Canada will be following its progress closely.

The Pakistani parliament has also enacted a provision that will enable non-resident taxpayers to obtain advance rulings on the interpretation of the tax laws. A ruling will take the form of a binding statement from the revenue authorities, issued upon the request of a non-resident, concerning the treatment and consequences of contemplated future actions or transactions in Pakistan. Canada will monitor closely the application of this ordinance.



7 *Opening Doors to Other Key Markets*

Middle East

ISRAEL

Overview

Israel is a modern, diverse and sophisticated country of more than six million people. With GDP per capita equivalent to that of countries in the Organization for Economic Cooperation and Development, Israel ranks as one of the most competitive nations of the 21st century. Israel is home to one of the world's most skilled and educated workforces (the majority of whom speak English) and has more doctors, scientists and engineers per capita than any other nation. Israel has gradually shifted from traditional low-technology and heavy industry toward services and the production of higher-value products for the high-technology industry. To a significant extent, it is the high-technology sector

and technology exports that are responsible for the country's economic growth. Contributing over half of GDP, the high-technology sector is expected to continue to drive economic growth.

In recent years, the general economic philosophy has shifted toward greater market orientation and openness to the world economy. This has been reflected in decisions to undertake fundamental economic reforms, provide foreign investment incentives and negotiate free trade agreements with many countries, including Canada. The openness of the economy, combined with heavy reliance on the high-technology sector, which accounts for half of Israel's exports, makes the country particularly vulnerable to global economic swings. Israel is currently experiencing an economic downturn related to the political situation, the world economic slowdown and the high-technology slump. Most sectors remain far below the peaks of 2000, and only weak recovery at best is expected for 2004. The security situation has had a particularly adverse effect on traditional sectors such as tourism, construction and agriculture. Nonetheless, Israel's new economy has shown remarkable resilience in the face of severe strain.

Despite the current climate, Canada and Israel have maintained a robust trade relationship, with two-way trade totalling nearly \$855 million in 2003. Our trade with Israel has increased by over 50% since the Canada-Israel Free Trade Agreement (CIFTA) came into effect in 1997, and tariffs on almost all products manufactured in Canada and Israel have been eliminated. Canada's major exports to Israel include machinery and electrical equipment, aircraft parts, wood and paper, and telecommunications equipment. Israel is also an important market for Canadian services exports, which were estimated at \$100 million in 2003. Canadian firms have also developed successful joint venture partnerships in information technology, biotechnology and construction.

Market Access Results in 2003

- Pursuant to an expansion of the terms of CIFTA, Israel now grants duty-free access to Canadian exports of wheat, frozen blueberries, potato flakes, flour and corn, as well as to some frozen vegetables and various dried peas and beans.

- In addition, improved market access was granted to imports of other agri-food products, including chickpeas, canary seed, beef, pet food and french fries. These measures will allow several export products to regain markets lost to the United States and the European Union.

Canada's Market Access Priorities for 2004

- Ensure that the recent expansion of CIFTA to include a wider range of agricultural products provides the best possible market access conditions for Canadian exports to Israel.
- As provided for under CIFTA, continue to engage in discussions with Israel to further liberalize bilateral trade in agricultural and agri-food products.
- Continue representations aimed at removing Israel's bovine spongiform encephalopathy (BSE) measures on imports from Canada.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Israel has an import ban on bovine animals, meat and meat products, animal feed and meals and other products from countries with cases of BSE. This ban has been applied to Canada. Canada has kept all its trading partners, including Israel, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

WEST BANK AND GAZA

Canada is committed to promoting trade and investment relations with the Palestinians. The Joint Canadian–Palestinian Framework on Economic Cooperation and Trade, signed in 1999, established a two-way commercial relationship based on free trade. Aside from eliminating tariffs, the Framework aims to improve market access and customs procedures while supporting emerging industries in this market. Services are not included in the agreement. Palestinian law stipulates that a local agent or representative is required to sell into this market.

The status of the Middle East Peace Process affects the movement of goods into and out of the West Bank and Gaza.

EGYPT

Overview

Egypt is one of the largest and leading states in the Arab world; it enjoys a unique, geographically strategic location and plays a key role in the region. Egypt also represents a market of 70 million people and is an excellent hub for the Middle East and African countries (through COMESA, the Common Market of Eastern and Southern Africa). There is good scope for Canadian and Egyptian cooperation across a broad spectrum of goods and services sectors, including in areas such as agriculture, education, environment, high-technology, telecommunications, oil and gas, transportation and infrastructure.

Egypt's economic reforms in the last decade have led to the liberalization of the economy and have brought new dynamism to trade prospects. Recent legislative developments demonstrate a new commitment toward an open economy. In 2002–2003, new laws were approved in the following areas: banking, mortgages, labour, money laundering, intellectual property rights and telecommunications. Also under consideration are draft laws on income taxes (corporate and personal), competition laws, small and medium-sized enterprises, capital markets, customs and sales tax revisions. Some modest progress continues to be made on Egypt's privatization program.

Egypt is ranked 44th globally and fifth regionally among Canada's export markets, and it is rated by Agriculture and Agri-Food Canada as one of the top five emerging markets worldwide. During 2001–2003, external shocks (9/11, the war in Iraq and continued tension in the region) and the present stagnation of the Egyptian domestic economy dampened bilateral trade. Nonetheless, in 2003, Canadian exports to Egypt reached a record high of \$231 million, up 25% compared with 2002 and far surpassing the \$135 million achieved in 1995 (when Statistics Canada began recording these figures). Recent Canadian export success stories during the past three years include sales of wheat, lentils and aircraft;

investment in the oil and gas sector; and several educational projects (primary and secondary levels, technical institutions and a memorandum of understanding signed in October 2003 for the creation of a Canadian university). The sectors accounting for the largest part of the rise in exports in 2003 were cereals (especially wheat), paper products and some fossil fuels (coal).

Egypt ranks as Canada's 65th largest source of imports. Canada's imports from Egypt reached \$116 million in 2003, up 100% compared with 2002. The sectors that accounted for most of the rise in 2003 were crude oil and fertilizers. Canadian imports from Egypt include mineral fuels, oils, fertilizers, knit apparel, floor coverings, cottons and yarn. In 2002, Canadian direct investment in Egypt, which is mainly in the oil and gas sector, was \$42 million.

Market Access Results in 2003

- Egypt authorized the import of canola.
- The Canadian Bureau for International Education (CBIE) received a licence to operate a Canadian primary and secondary school.

Canada's Market Access Priorities for 2004

- Secure access for exports of halal beef.
- Secure a licence to operate a Canadian technical school (University and College of Cape Breton).
- Secure a licence to operate a Canadian university (Association of Universities and Colleges of Canada).
- Secure a licence to operate a Petroleum Institute (Northern Alberta Institute of Technology).
- Secure authorization to process canola oil in Egypt.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Halal Beef

Meetings on December 3, 2003, with the Egyptian Ministry of Agriculture and Land Reclamation (MALR) resulted in an agreement whereby the Egyptian government will accept the current halal slaughtering certificate for all veal and beef products, subject to authentication by the Egyptian embassy in Ottawa and/or the Egyptian consulate in Montreal.

MALR officials must certify individual halal slaughtering houses before exports of offal (liver, kidneys, etc.) can commence.

Educational Services

A Canadian Technical School

A licence to operate a Canadian technical school is expected from the Egyptian Ministry of Higher Education during the first half of 2004. The Canadian College of Advanced Technology (CCAT) will be the Egyptian branch of the University College of Cape Breton (UCCB), located in Nova Scotia, Canada. This program will offer an accredited one-year certificate, which can lead to a three-year Cooperative Education Diploma Program, with three four-month job placements. There will also be an opportunity for CCAT diploma graduates to attain a Bachelor of Technology accredited by UCCB, either from CCAT in Egypt, or by attending UCCB for a full calendar year in Canada.

Al Ahram Canadian University

The Al Ahram Canadian University (ACU) project is a joint effort between Al Ahram Establishment (Al Ahram is the largest Arabic daily newspaper in the Middle East in distribution) and the Association of Universities and Colleges of Canada to establish the first Canadian university in the Middle East. ACU will be completed over a five-year period and will consist of 12 faculties, each one paired with a corresponding Canadian university. A permanent campus has already been acquired on the edge of Cairo (over 40 hectares), which will be the main campus for all faculties. The total cost of the project is expected to exceed \$180 million. The university plans to start operating the first three faculties (Journalism with the Université du Québec à Montréal, Computer Science with École Polytechnique de Montréal and Business with McMaster University) in September 2004. Al Ahram presented the necessary documents for the establishment of the university on January 26, 2004.

Gas Pipeline Training Institute

The Northern Alberta Institute of Technology (NAIT), in collaboration with the Egyptian Ministry of Petroleum, signed an agreement in 2002 to develop a gas pipeline training institute to enhance current skills, introduce a modern curriculum and transfer new technologies to the Egyptian petroleum

industry. In 2004, NAIT hopes to secure a licence from local authorities to acquire the necessary legal status to operate the institute.

Canola Oil

In 2003, Canada passed a major milestone when Egypt authorized the import of canola oil into the Egyptian market. The Canadian embassy has been pursuing a specific project for the last 10 years in cooperation with Intercap Inc., which represents Boge & Boge Ltd. On December 7, 2003, Intercap signed a memorandum of understanding (MOU) with the Egyptian Ministry of Agriculture and Land Reclamation. This MOU announces Egypt's intention to allow Canada to provide a turnkey canola processing facility in Egypt that can also process sunflower and soybean seeds. The approximate value of this project will be \$20 million. The MOU also anticipates the further development of canola cropping in Egypt and support in marketing canola. The projected benefits to Canada include the sale of Canadian-manufactured equipment, technical training and administration services, and expanded access for canola seed as well as crude and refined canola oil.

IRAQ

Overview

With the adoption of Resolution 1483 on May 22, 2003, the United Nations Security Council lifted most sanctions against Iraq, with the exception of the arms embargo. However, the purchase of oil from Iraq remains subject to some conditions under paragraphs 20 and 21 of that resolution. In keeping with Resolution 1483, on June 4, 2003, Canada removed these barriers to commercial and financial transactions with Iraq.

Although the UN sanctions regime has ended, Canada requires that exporters obtain an export permit for any goods on the Export Control List. Exports of such goods will be carefully scrutinized according to their final destination. Companies considering exports in these fields should contact the Export Control Division at the Department of Foreign Affairs and International Trade. For more information, call (613) 996-2387.

Prior to the Gulf War of 1990–1991, Iraq was one of Canada's most important markets in the Middle East. Although Iraq has the potential to once again be an important market for Canadian firms, major challenges will remain in the medium to long term. Once the security situation is stabilized and governance issues are resolved, there should be no impediments to full participation by Canadian companies in the redevelopment of Iraq. For now, the main avenue for Canadian enterprises to enter the Iraqi market is through contracts for U.S.-funded projects.

A new foreign direct investment policy for Iraq was announced in September 2003, which is intended to permit foreign investors to own up to 100% of enterprises in all sectors except natural resources. There are very few other restrictions. Profits, dividends, interest and royalties may be fully remitted. Land may not be purchased, but it may be leased for up to 40 years. The heaviest infrastructure investments in 2004 are likely to be in electric power, oil production, refining and distribution, and water treatment. Industries such as cement aggregates and other construction materials are expected to do well. The shift toward a more market-oriented economy as well as the establishment of a new currency, future transparent legal environment and a friendly business environment will help ensure opportunities for Canadian exporters.

IRAN

Overview

In its Third Economic Development Plan (2000–2004), the Iranian government announced a trade liberalization policy, including a transformation from a non-tariff-based to a tariff-based import system together with privatization in all sectors of the largely state-controlled economy. In reality, privatization has occurred more slowly than expected. Nonetheless, it is proceeding particularly rapidly in expanding sectors such as information and communication technologies (ICT). The expected continuation in the proposed Fourth Economic Development Plan (2005–2009) of the privatization process and the implementation of policies aimed at encouraging foreign investment should focus attention on priority sectors including agri-food, mining, ICT and environmental technologies.

Although the Iranian constitution continues to prohibit 100% foreign ownership of assets in Iran, there have recently been significant policy changes designed to modernize the economy and prepare for possible negotiations aimed at accession to the World Trade Organization. These changes include the introduction of a Foreign Investment Protection and Promotion Act, which covers investments under models such as buy-back and build-operate-transfer (BOT) that were not addressed in previous foreign investment legislation. The wide-ranging corporate tax rate has been cut to a flat 25%, and companies may now have their books examined by independent, rather than government, auditors (although, the implementation mechanism remains outdated). Foreign business visitors can now receive 72-hour visas at the airport upon arrival in Iran. The multiple exchange rate system has been abolished leaving one standard rate that is both close to the black market rate and stable.

Iran's economy is heavily dependant on oil revenues, and about 80% of its hard currency earnings are generated through oil exports. However, a closer look at the sectoral distribution of GDP indicates that Iran's is a relatively diversified economy, where the services sector plays a major role.

In 2003, Canadian exports to Iran amounted to \$232 million, up 38% from 2002, while Iran's exports to Canada amounted to \$63 million, up 15% from a year earlier. Iran ranks 46th as an export market for Canadian goods and 75th as a source of imports into Canada.

In past years, Iran was one of the world's largest importers of wheat, with an annual consumption of 11 to 12 million tonnes and imports of 5 to 6 million tonnes in some years, particularly during the three-year drought from 1998 to 2001. During that period, Iran was the largest purchaser of Canadian wheat, importing a record 3.5 million tonnes in the 1999–2000 crop year. However, in 2002 Iran produced a record domestic wheat crop of nearly 10 million tonnes (an 80% increase), and in 2003 domestic wheat production increased by another 10% to 15%. This turn of events, combined with a two-year drought in the Canadian prairies, resulted in a sharp drop in Canadian wheat exports to Iran, which amounted to only 142,000 tonnes in 2002.

Market Access Results in 2003

- Iran's tariff on canola crude oil was reduced from 60% in 2001 to 5% in 2003 to achieve parity with popular imported oils such as soy and sunflower.
- Iranian importers no longer require an import permit for most products, because the list of prohibited items has been drastically reduced; the list now includes only a few items such as pork, satellite receivers and alcohol.
- Canada's Export Development Corporation (EDC) successfully negotiated for the first time a sovereign guarantee with the Iranian government that allows EDC to offer medium-term project financing.
- The Central Bank of Iran is no longer the only financial institution in Iran that can provide Letter of Credit (L/C) facilities to importers. Major Iranian banks are now permitted to offer L/C facilities and to require an advance payment of only 10% to 20% of the full amount of an L/C.
- The import of processed food products into Iran was prohibited for a number of years. However, during 2003 the regulations were changed, and processed food items, except for pork and alcohol beverages, may now be imported into the country.

Canada's Market Access Priorities for 2004

- Seek revision of the existing sanitary and phytosanitary protocol between Canada and Iran, which stipulates a number of terms and conditions on the import of cattle.
- Pursue a general protocol between the Iranian Health Ministry and the Canadian Food Inspection Agency to cover all Canadian food manufacturing and/or products.
- Continue negotiation of a mutually agreeable certificate for the export of live cattle and beef to Iran.

IMPROVING ACCESS FOR TRADE IN GOODS

Livestock

The Iranian Jihad-Agriculture Ministry agreed to remove the prohibition on the import of live cattle, which had been in place for the preceding 12 years.

In addition, the Iranian Ministry and the Veterinarian Organization of Iran agreed in November 2003 to the import of Canadian cattle. Discussions to finalize arrangements are under way.

Processed Food

High tariffs have been established for some processed food products. Canada will continue to seek reductions in these tariffs, as well as the elimination of non-tariff barriers including the following:

- Requirements that exporters must have a local agent or distributor.
- Entry processes under which cargoes of processed food sit at the port of entry while food and drug laboratories analyze samples, a process that can take up to three weeks. To overcome this barrier, a local agent or distributor can pay to have two health inspectors visit the manufacturing facility in the country of origin in order to issue a permanent warrant for the import of that product.

Local Content

As Iran attempts to address record unemployment, it has established a local content requirement for imports of almost all goods. In addition to creating employment, this requirement is designed to encourage transfer of technology.

Genetically Modified Organisms

Iranian authorities have not passed any laws regarding the production or import of products based on genetically modified organisms (GMOs), and the government continues to welcome any information from North American and European countries on their experience with GMO issues. However, Iran does not allow the import of living modified organism (LMO) products such as canola GMO sowing seeds. The responsible bodies in Iran for issues concerning GMOs and LMOs are the Ministry of Jihad-Agriculture, Ministry of Health and the Environment Organization of Iran.

Automobiles

The Iranian government has implemented a series of measures designed to reduce extreme pollution in large cities such as Isfahan, Mashhad, Shiraz, Tabriz

and Tehran (mainly caused by emissions from aging vehicles), as well as to cut the import of petroleum by reducing fuel consumption. These measures include removal of the existing ban on the import of new motor vehicles. However, despite the designation by the Iranian Customs Office of four entry points for imported vehicles, this policy has not yet been implemented, as the customs authorities have yet to receive a directive from either the Ministry of Commerce or the government to start the procedures. In addition, in order to protect the position of domestic vehicle manufacturers such as the giant Iran Khodro and SAIPA firms, the government has instituted very high tariffs on imports.

IMPROVING ACCESS FOR TRADE IN SERVICES

Despite recent improvements, doing business with Iran still poses many challenges. Since 80% of the economy is state-owned, the client is often the Iranian government or government agencies. Such clients have procurement policies that can be prone to bureaucratic complexities that lengthen the negotiating process considerably. Visa issuance for Canadian business people routinely takes several weeks, further slowing the pace of business. Income taxes on individuals stationed in Iran on behalf of foreign firms remain high, creating a significant disincentive to send qualified expatriate staff to the country.

Banking and Financial Services

Foreign banks are permitted to establish 100%-owned branches offering a full range of services only in designated free trade zones in Iran. However, due to the severely restricted market in the free trade zones, foreign participation has not materialized as anticipated. The Iranian authorities are studying proposals to extend the permit system to allow foreign banks to operate on the Iranian mainland as well.

OTHER ISSUES

For Canadian firms in the oil and gas sector, the closing in October 2003 of the Calgary office of Kala Naft (the National Iranian Oil Company's purchasing arm) will mean that marketing and sales efforts must now be conducted directly with the end user in Iran.

Arabian Peninsula

Six of the seven Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) are members of the Gulf Cooperation Council (GCC), which is mandated to strengthen relations and foster economic integration between those countries. The GCC implemented a customs union early in 2003, setting a harmonized GCC-wide tariff of 7%. The group recently approved the establishment of a customs information centre in Riyadh, Saudi Arabia, to link the customs departments of the GCC states. There are also plans to move toward monetary union by 2010. In December 2003, the GCC endorsed a Unified Law for the Prevention of Dumping, with mandatory enforcement from the beginning of 2004. It also ratified the founding charter for the Metrology Organization in Riyadh, with a view to unifying standards and measures in the member states and to ensuring the safety and quality of goods entering the markets of the GCC.

The GCC has confirmed its commitment to signing free trade agreements with other economic blocs, and discussions are well under way with the European Union, the United States and Australia. In the case of the European Union, discussions are quite advanced. Canada's merchandise exports to the region increased in 2003 to \$988 million, up from \$600 million in 2002.

SAUDI ARABIA

Saudi Arabia is Canada's second largest export market in the Middle East and North Africa region, with two way trade reaching \$1.3 billion in 2003. Saudi Arabia recently renewed its commitment to completing its accession to the World Trade Organization (WTO) and hopes to accede by the end of 2004. In addition to securing market access improvements, Canada will seek to ensure in the working party negotiations that Saudi Arabia fully implements its obligations under all WTO agreements on accession. There is an outstanding request from Saudi Arabia to re-enter double taxation agreement (DTA) negotiations and open foreign investment protection agreement (FIPA) negotiations.

Market Access Results in 2003

- In September 2003, Canada successfully negotiated an export certificate for veal to Saudi Arabia, allowing Canada to maintain its significant veal exports to Saudi Arabia.

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing Saudi Arabia's remaining bovine spongiform encephalopathy (BSE) measures on imports from Canada, in particular on live cattle, bovine semen and beef other than veal.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Saudi Arabia did not initially announce any new restrictions on imports of Canadian cattle, beef or their products. While many markets initially banned Canadian beef, Canada was successful in maintaining its significant beef (veal) exports to Saudi Arabia. In September 2003, Canada successfully negotiated an export certificate for veal to Saudi Arabia. However, Saudi Arabia has been unclear with respect to its restrictions on Canadian exports of other products (i.e., bovine semen, live animals and beef other than veal), creating uncertainty for Canadian exports. In December 2003, Saudi Arabia confirmed an import ban on live cattle and bovine semen from Canada. Canada has kept all its trading partners, including Saudi Arabia, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

THE UNITED ARAB EMIRATES

The United Arab Emirates (UAE) is gathering strength as a major regional distribution centre and investment destination, through its focus on economic diversification and development of port and manufacturing operations, as well as high-end

tourism facilities. A key factor in the UAE's success has been the development of free zones, providing users with abundant low-cost energy, land, labour and government financial incentives and special concessions on foreign ownership regulations. Canada and the UAE have excellent bilateral relations, particularly in the health, education and services sectors. The UAE signed a Double Taxation Agreement with Canada in 2002, which is expected to be formally ratified and come into effect in 2004.

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing the UAE's BSE measures on imports from Canada, in particular bovine semen and embryos.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, the UAE issued restrictions on the import of Canadian live cattle and beef products, including bovine semen and embryos. Canada has kept all its trading partners, including the UAE, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

KUWAIT

Kuwait is responding slowly to the challenges of economic diversification and liberalization, and it relies on petroleum for nearly half its GDP and 90% of export revenues. The country has taken some steps toward economic reform with the privatization of Kuwait Airways, the creation of free trade zones and reforms that would allow 100% foreign investment in some sectors. Canada and Kuwait signed a Double Taxation Agreement in 2002.

OMAN

Oman became a member of the WTO in 2000, at which time it introduced WTO-consistent laws to protect intellectual property such as that covered by

patents, trademarks and copyright, including software and audio/video recordings. Canada and Oman negotiated a Double Taxation Agreement in 2003, which should be ratified by both sides in 2004.

The Maghreb

The Maghreb region represents a major market for Canadian goods and services, although exports of goods declined from \$808 million in 2002 to \$644 million in 2003, due largely to lower demand for agricultural exports caused by better growing conditions locally. The region as a whole has made important progress in trade liberalization and openness to investment in recent years. Algeria, Morocco and Tunisia have all signed association agreements with the European Union.

The discovery of BSE in Canada in 2003 negatively affected some agricultural exports, ensuring that market access for Canadian beef in the region will be a priority in 2004.

ALGERIA

Algeria has initiated an ambitious campaign of privatization and modernization, as well as regulatory reforms that have opened up sectors such as mining and telecommunications to foreign investors. Algeria has a Double Taxation Agreement with Canada.

Algeria has applied to join the WTO and accession negotiations have begun, including a working party meeting in 2003. Canada's market access priorities for the coming year will include support for Algeria's accession to the WTO.

Market Access Results in 2003

- The Canadian Food Inspection Agency negotiated a certificate for the export of dairy products and bovine semen.

Canada's Market Access Priorities for 2004

- Renegotiate a certificate for live cattle.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Algeria required that the certificate for live cattle be renegotiated. Canada has kept all its trading partners, including Algeria, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

MOROCCO

Morocco has been a member of the WTO since January 1995. Its economy is undergoing a period of transition as substantial economic reforms, encouraged by the International Monetary Fund, are implemented. These reforms (e.g., liberalization of certain services areas such as banking, privatization of state-owned companies, abolition of regulations limiting foreign holdings, easing of exchange regulations and encouragement of joint ventures, etc.) should allow for a modernization of the economy while promoting market access.

Canada's Market Access Priorities for 2004

- Continue representations aimed at removing Morocco's bovine spongiform encephalopathy (BSE) measures, in particular those on live cattle.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Morocco did not impose any specific BSE-related measures against Canadian products. However, Morocco has a general decree that bans imports of live animals, meat and associated products from countries that have a declared BSE case, including Canada. Canada has kept all its trading partners, including Morocco, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

LIBYA

Libya submitted its application for accession to the WTO in December 2001. A working party has yet to

be established. The Canadian Embassy in Libya officially opened in 2002, and it has made significant progress in expanding access to the Libyan market for Canadian companies. Canada's exports to Libya increased 120% between 2001 and 2002, rising from \$20.5 million to \$47.4 million. Exports continued to increase in 2003, rising by 38% to \$66 million.

United Nations trade sanctions, which had been suspended in 1999, were lifted in 2003, following an agreement on August 25, 2003, whereby Libya agreed to pay compensation for the 1988 Lockerbie airliner bombing. Canadian sanctions had been lifted in 1999, after Libya agreed to deliver two Lockerbie suspects for trial. The United States still maintains sanctions against Libya. With the resolution of the Lockerbie issue, Canada will continue its policy of progressive engagement with Libya.

TUNISIA

Tunisia joined the WTO in 1995 and is actively pursuing a trade liberalization policy. Tunisia has introduced a large number of structural and regulatory reforms in order to promote foreign investment, including free trade zones and updating of infrastructure.

Canadian exports to Tunisia more than doubled to \$138 million in 2002, a year in which Canada hosted a Canada–Tunisia Bilateral Commission to further advance economic cooperation and market access. However, in 2003, exports declined to \$88 million, due largely to lower demand for agricultural products.

Market Access Results in 2003

- In 2003, the Canadian Food Inspection Agency negotiated a new health certificate for the export of bovine semen to Tunisia.

Canada's Market Access Priorities for 2004

- Negotiate a valid export certificate for live cattle.

Sub-Saharan Africa

SOUTH AFRICA

Overview

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

South Africa continues to open its domestic market and to pursue an open trading regime. It actively participates in multilateral organizations such as the Cairns Group, which pursues further liberalization of agricultural trade. Since the end of apartheid, tariffs have been simplified and reduced and non-tariff barriers have been scaled back. Competition is being encouraged by reducing the concentration of business ownership (a legacy of apartheid) and through privatization and deregulation. South Africa actively encourages foreign investment in order to accelerate development and increase employment. To encourage greater inclusiveness, the government actively promotes economic empowerment for historically disadvantaged South Africans in both the public and private sectors.

Market Access Results in 2003

- South Africa advised in June 2003 that it will now accept milk and milk products, semen and embryos, protein-free tallow, hides and skins, and gelatine and collagen prepared from hides and skins from Canada.

Canada's Market Access Priorities for 2004

- Monitor the implementation of legislation in the mining sector to ensure that the interests of Canadian mining companies invested in South Africa are not compromised.

- Continue to monitor Canada's competitiveness in the light of the free trade agreements that South Africa has negotiated with the European Union and with the Southern African Development Community, as well as those being negotiated between the Southern Africa Customs Union and the United States and Mercosur.
- Monitor South African legislation and policies in areas such as natural resources and economic empowerment for historically disadvantaged South Africans, to ensure that the interests of Canadian investors are protected.
- Secure a bilateral air transport agreement.
- Continue representations aimed at removing South Africa's bovine spongiform encephalopathy (BSE) measures on imports from Canada.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, South Africa initially issued a strict and complete ban on the import of all ruminants and ruminant products from Canada, including milk, semen and embryos. However, in June South Africa advised that it would accept milk, semen, embryos and certain other products. Canada has kept all its trading partners, including South Africa, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Bilateral Air Transport Negotiations

Negotiations on a bilateral air transport agreement allowing Air Canada to serve South Africa are scheduled for 2004. Such an agreement would represent a gain in market access for the Canadian airline and benefit other Canadian businesses by easing travel to and from South Africa.

OTHER ISSUES

Mining Royalty Bill

In 2003, Canadian companies raised concerns about the draft South African Mineral and Petroleum Royalty Bill, particularly the way the royalties were to be assessed, that is:

- on gross revenue rather than on profit, contrary to the model prevalent in Canada;
- at different rates for different minerals, and
- at relatively high rates subject to potential future increases.

All of these aspects of the draft bill were strongly opposed by Canadian mining firms, other international mining firms, and the South African mining industry in general. A revised final version of the bill is to be presented in the spring of 2004.

EAST, WEST AND SOUTHERN AFRICA (EXCLUDING SOUTH AFRICA)

Canadian exports to the rest of sub-Saharan Africa are concentrated in wheat, machinery and telecommunications equipment. Exports to the region from the European Union and the United States suggest that Canadian suppliers are not winning the share of African business that might be expected. A priority for 2004 will be identifying new opportunities to export to Africa and exploring reasons for the apparent limited access of Canadian exporters to African markets. The Government of Canada will continue to encourage African governments to implement a transparent, business-friendly environment in order to facilitate commercial transactions and make African countries more attractive as export and investment destinations. Regional integration initiatives, such as the implementation and expansion of a uniform business law across much of West Africa, are important examples of efforts to achieve legislative consistency and reduce uncertainty in the market.

8 Glossary of Terms

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

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

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

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

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

CA4 (Central America Four): El Salvador, Guatemala, Honduras and Nicaragua. Currently in free trade negotiations as a group with Canada. (*Groupe des quatre de l’Amérique Centrale*)

CAIRNS GROUP: A coalition of 17 agriculture exporting countries (Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, Uruguay) that develops proposals in the context of multilateral trade negotiations. (*Groupe de Cairns*)

CANADA–EU ACTION PLAN: Signed on December 17, 1996, the Action Plan is designed to strengthen Canada–EU relations and consists of four parts: economic and trade relations, foreign policy and security issues, transnational issues and fostering links. (*Plan d’action commun Canada–UE*)



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

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

COUNTERVAILING DUTIES: Additional duties imposed by the importing country to offset government subsidies in the exporting country, when the subsidized imports cause material injury to domestic industry in the importing country. (*Droits compensateurs*)

CUSTOMS VALUATION: The appraisal of the worth of imported goods by customs officials to determine the amount of duty payable in the importing country. The GATT Customs Valuation Code obliges governments that sign it to use the “transaction value” of imported goods—or the price actually paid or payable for them—as the principal basis for valuing the goods for customs purposes. (*Évaluation en douane*)

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

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

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

FOREIGN DIRECT INVESTMENT: The funds committed to a foreign enterprise. The investor may gain partial or total control of the enterprise. An investor who buys 10% or more of the controlling shares of a foreign enterprise makes a direct investment. (*IED : Investissement étranger direct*)

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

FTAA: Free Trade Area of the Americas. Proposed agreement between 34 countries of the Western hemisphere to create a free trade area by 2005. The FTAA process was launched in Miami in December 1994. (*ZLEA : Zone de libre-échange des Amériques*)

GATS: General Agreement on Trade in Services. The first set of multilaterally agreed and legally enforceable rules and disciplines ever negotiated to cover international trade in services. (*AGCS : Accord général sur le commerce des services*)

GATT: General Agreement on Tariffs and Trade. From 1947 to 1995, the multilateral institution overseeing the global trading system, as well as the international agreement governing trade in goods (GATT 1947). As an organization, superseded by the WTO in January 1995. GATT 1994 (the agreement) which reflects amendments to the original agreement

and incorporates new WTO agreements, continues to govern trade in goods. (*GATT : Accord général sur les tarifs douaniers et le commerce*)

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

INTEGRATED FRAMEWORK: A plan for providing trade-related technical assistance, including human and institutional capacity building, in support of trade and trade-related activities of the least-developed countries. It is led by the WTO and five multilateral organizations. (*Cadre intégré*)

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

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

LIBERALIZATION: Unilateral, bilateral or multilateral actions to reduce tariffs and/or remove other measures that restrict international trade. (*Libéralisation*)

MFN: Most-favoured-nation treatment (Article I of the GATT 1994). Requires countries not to discriminate between goods on the basis of country of origin or destination. (*NPF : Traitement de la nation la plus favorisée*)

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

NON-TARIFF BARRIERS (MEASURES): Government measures or policies other than tariffs that restrict or distort international trade. Examples include import quotas and discriminatory government procurement practices. Such measures have become relatively more conspicuous impediments to trade as tariffs have been reduced during the period since World War II. (*Barrières non tarifaires – mesures*)

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

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

RULES OF ORIGIN: Laws, regulations and administrative procedures that determine the origin of a good. Rules of origin may be designed to determine the eligibility of a good for preferential access under the terms of a free trade agreement, or they may be designed to determine a good’s country of origin for various purposes. A decision by a customs authority on origin can determine whether a shipment falls within a quota limitation, qualifies for a tariff preference or is affected by an anti-dumping duty. These rules can vary from country to country and from purpose to purpose. (*Règles d’origine*)

SMART BORDER ACTION PLAN: A 30-point Action Plan signed by Canada and the United States on December 12, 2001. The Plan provides for ongoing collaboration in identifying and addressing security risks while expediting the legitimate flow of people and goods across the border. The Plan has since been expanded to include two additional items for cooperative work: (1) biosecurity and (2) science and technology. (*Le plan d’action sur la frontière intelligente*)

SUBSIDY: An economic benefit granted by a government to producers of goods, often to strengthen their competitive position. The subsidy may be direct (a cash grant) or indirect (e.g., low-interest export credits guaranteed by a government agency). (*Subvention*)

TARIFF: A tax on merchandise imports. Levied either on an ad valorem (percentage of value) or on a specific basis (e.g., \$5 per 100 kilograms). Tariffs give price advantage to similar locally produced goods and raise revenues for government. (*Tarif de douanes*)

TARIFF RATE QUOTA: Two-stage tariff. Imports up to the quota level enter at a lower rate of duty; over-quota imports enter at a higher rate. (*Contingent tarifaire*)

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

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

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

WTO APPELLATE BODY: An independent seven-person body that, upon request by one or more parties to a dispute, reviews findings in panel reports. (*Organe d’appel de l’OMC*)

ZERO-FOR-ZERO: Refers to a market access agreement wherein all the participating countries eliminate the same barriers on the same products. A zero-for-zero agreement most frequently refers to tariff elimination but could include elimination of non-tariff barriers as well. (*Accords zéro-zéro*)



9 *List of Acronyms*

AGP	Agreement on Government Procurement	CIFTA	Canada–Israel Free Trade Agreement
APEC	Asia-Pacific Economic Cooperation forum	DFAIT	Department of Foreign Affairs and International Trade
ASEAN	Association of South-East Asian Nations	DSU	Dispute Settlement Understanding (WTO)
BSE	Bovine spongiform encephalopathy	EDC	Export Development Canada
BSL	(Japan’s) Building Standards Law	EFTA	European Free Trade Association
CA4	Central America Four: El Salvador, Guatemala, Honduras and Nicaragua	EU	European Union
CARICOM	Caribbean Community	EXTUS	Exporters to the United States
CCC	China Compulsory Certification	FAST	Free and Secure Trade (U.S. border Initiative)
CCFTA	Canada–Chile Free Trade Agreement	FDA	Food and Drug Administration (U.S.)
CDIA	Canadian direct investment abroad	FDI	foreign direct investment
CFE	Comisión Federal de Electricidad (Mexico’s state electricity firm)	FHWA	Federal Highway Administration (U.S.)
CFIA	Canadian Food Inspection Agency	FIPA	foreign investment protection (and promotion) agreement
CIDA	Canadian International Development Agency	FSA	Financial Services Agency (Japan)
		FTA	Free Trade Agreement
		FTAA	Free Trade Area of the Americas
		GATS	General Agreement on Trade in Services
		GATT	General Agreement on Tariffs and Trade
		GDP	gross domestic product
		GM	genetically modified
		GMO	genetically modified organism
		ICT	information and communication technologies
		IEC	Intergovernmental Economic Commission
		IMF	International Monetary Fund
		ISO	International Organization for Standardization
		IT	information technology
		JAS	Japan Agricultural Standards
		JETRO	Japan External Trade Organization
		LDC	least-developed country

MAFF	Ministry of Agriculture, Forestry and Fisheries (Japan)	SME	small and medium-sized enterprise
Mercosur	Southern Cone Common Market (Argentina, Brazil, Paraguay and Uruguay)	SPS	sanitary and phytosanitary
MFN	most-favoured nation	SPWG	Special Partnership Working Group (Canada–Korea)
MMPA	Marine Mammal Protection Act (U.S.)	STAR	Secure Trade in the APEC Region
MOU	memorandum of understanding	TBT	technical barriers to trade
MRA	mutual recognition agreement	TEA-21	Transportation Equity Act for the 21st Century (U.S.)
NAFTA	North American Free Trade Agreement	TICA	Trade and Investment Cooperation Arrangement
NEBS	New Exporters to Border States	TRIPs	trade-related aspects of intellectual property rights
OECD	Organization for Economic Cooperation and Development	TRQ	tariff rate quota
OIE	World Organization for Animal Health (OIE, formerly known as the Office International des Epizooties)	VOCs	volatile organic compounds
PEMEX	Petróleos Mexicanos (Mexico's state oil firm)	WTO	World Trade Organization
SAGIT	sectoral advisory group on international trade		
SCFAIT	Standing Committee on Foreign Affairs and International Trade		