

OPENING DOORS TO THE WORLD

CANADA'S INTERNATIONAL MARKET ACCESS PRIORITIES, 1998

1. INTRODUCTION

Trade is important to the prosperity and well-being of Canadians. One in three Canadian jobs depends on trade with the rest of the world, and every \$1 billion in new exports creates an estimated 6 000 to 8 000 new jobs¹ in Canada.

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

Opening Doors to the World: Canada's International Market Access Priorities, 1998 presents significant market-opening results over the past year and outlines the government's priorities for 1998 to further improve access to foreign markets. The government will pursue these goals multilaterally, through the World Trade Organization (WTO), and the Organization for Economic Co-operation and Development (OECD); regionally, in forums such as the Asia-Pacific Economic Co-operation (APEC) forum and the nascent Free Trade Area of the Americas (FTAA); and bilaterally, with key partners, principally the United States, the European Union and Japan. In all cases, the government's objective will be to ensure that Canada's traders and investors benefit fully from international trade agreements, because trade with the world means jobs at home—good jobs, jobs that last.

CANADA: A TRADING NATION

Merchandise Trade Growing Rapidly

Canada depends more on trade than any other major industrialized nation. Over the past twenty years, from 1977 to 1997, Canada's merchandise exports to the world have grown from \$45.6 billion to \$301.3 billion² (see Figure 1).

¹This "export-job multiplier" is based on analysis carried out by the federal government in 1997.

²1997 merchandise trade figures appearing throughout this document are preliminary figures released by Statistics Canada, February 19, 1998. Unless otherwise specified, all values are in Canadian dollars.

Insert Figure 1

The total value of Canada's goods exports in 1997 reached its highest level ever, growing 7.4% over the record set the previous year. As a percentage of Canada's gross domestic product (GDP), the total value of all exports has grown from just 18% in 1977 to about 41% in 1997. This rapid growth has been a significant factor in the creation of jobs: 39% of net new jobs created between 1990 and 1995 resulted from exports.

Trade is a two-way street. In 1997, Canada's imports amounted to \$278.2 billion. Imports play a critical role in Canada's economy and are vital to the success of our overall trade picture. One of Canada's main import policy objectives is to maintain and strengthen the competitiveness of Canadian business. For example, unilateral tariff reductions on goods used as production inputs help to reduce costs of Canadian businesses and make them more competitive in domestic and global markets. Improved access to foreign markets through participation in international trade agreements and negotiations also helps to further improve the competitiveness of Canadian exports in these markets. These policies combined help to make Canada's economy more robust, our industries more competitive, exports more successful and consumer goods cheaper for Canadians.

INSERT FIGURE 2

No Longer Just Hewers of Wood and Drawers of Water

Many believe that Canada's exports are dominated by primary products, such as coal, wheat and lumber. In fact, in 1996, primary goods accounted for just 19% of the total value of our exported goods. End products and semi-manufactured exports accounted for the other 81%. Figure 2 shows the important shift in the profile of Canada's exports since 1963, when primary products accounted for 43% of total exports. While exports of natural resources will continue to be extremely important to the Canadian economy, the expansion of our export-oriented manufacturing and service industries increasingly supports high-wage and knowledge-intensive jobs in Canada.

INSERT FIGURE 3

Services Exports Also Growing Rapidly

Services account for close to three quarters of employment and production in Canada, and in recent years, global trade in services has grown faster than trade in goods. Over the past 20 years, from 1977 to 1997, Canada's services exports grew from \$4.9 billion to \$41.38 billion (see Figure 3). The total value of

Canada's services exports in 1997 reached its highest level ever, growing 6.38% over the record set the previous year.

INSERT FIGURE 4

Importance of Investment: Inward and Outward

Investment, both inward and outward, plays a vital role in ensuring Canada's prosperity. The stock of Canadian direct investment abroad has grown rapidly, from \$12.1 billion in 1976 to \$170.8 billion in 1996 (see Figure 4). Successful investment abroad brings profits home, and improves access for exports to foreign markets, creating wealth and economic activity in Canada.

Foreign investment in Canada has also grown significantly, from a total of \$41.6 billion in 1976 to \$180.4 billion in 1996. Such investment brings in foreign technology and facilitates the diffusion of knowledge to Canadian firms and workers, thus enhancing productivity in Canada. These investments also create jobs in Canada (a recent Industry Canada study indicates that a \$1-billion increase in new inward foreign direct investment (FDI) to Canada generates approximately 45 000 jobs over a five-year period), (see Figure 5).

INSERT FIGURE 5

The Changing Nature of Trade and Investment Barriers

Many types of barriers prevent Canadian traders and investors from taking advantage of opportunities in foreign markets. Perhaps the best-known is the tariff, a tax on imports. While tariff walls continue to limit access to several markets, international negotiations have successfully reduced tariff levels. Average industrial tariffs in developed countries have fallen from approximately 40% in 1948 to less than 5% in 1998. In 1996, the average import-weighted tariff was 3.7% in the United States; 6.6% in the European Union and 3.5% in Japan.

As tariffs are lowered, the extent to which non-tariff barriers (NTBs) impede the flow of goods and services, increases, at least in relative terms. Examples of NTBs commonly affecting Canadian exports include technical barriers to trade (TBTs), such as standards and labelling requirements; and sanitary and phytosanitary (SPS) measures, such as quarantine and health and safety requirements. Reflecting the changing nature of barriers to trade, negotiations to liberalize trade are focussing increasingly on reducing or eliminating unjustified NTBs, in addition to seeking to reduce tariffs wherever possible.

Investment barriers can also take a number of forms. These barriers usually focus on restricting the right of a foreign investor to establish a business or investment in a host economy. Restrictions on operations and management following the establishment of an investment are also identified as barriers to investment. Investment restrictions currently implemented by our trading partners include ownership restrictions, investment screening, performance requirements, restrictions on the transfer of funds, discriminatory treatment with regard to operations or management (e.g. domestic licensing) and restrictions on the movement of key personnel.

Progress to Bring Down Barriers

Canada's strong export performance in recent years has been due in large part to governments' pursuit of policies that improve access to the United States and other foreign markets, and that promote the continuous improvement and expanded coverage of international rules governing trade and investment.

Canada has been remarkably successful over the last decade in pursuing these goals. Negotiation of the Canada-U.S. Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA), and the creation of the WTO, have provided an enhanced rules-based framework to facilitate trade and investment. In addition, Canada is expanding trade liberalization and pursuing its market access priorities through complementary initiatives such as the APEC forum, the FTAA, the *Canada-EU Action Plan*, the recent bilateral free trade agreements with Chile and Israel, and discussions with EFTA countries about a possible Canada-EFTA FTA. Throughout all of these initiatives, Canada works to increase access to markets in a manner that promotes Canadian values, including respect for the environment and labour standards.

Market Access and Trade and Investment Promotion

Expanding international trade and investment is a vital element of the federal government's strategy to promote jobs, growth and prosperity. The government's international business development program, including the highly successful Team Canada trade missions abroad, encourages Canadian traders and investors, particularly small and medium-sized enterprises, to take full advantage of international opportunities. The recent creation of Team Canada Inc is designed to enhance horizontal management through a single, integrated business plan and regular meetings across the three core international business development departments: the Department of Foreign Affairs and International Trade (DFAIT), Industry Canada, and Agriculture and Agri-Food Canada.

The Government's concerted efforts to enhance access to foreign markets go hand-in-hand with the export and investment marketing activities presented in Canada's International Business Strategy

(CIBS). For instance, DFAIT's new Global Opportunities (GO) Teams of Trade Commissioners are dispatched to liberalizing markets (e.g. Mexico and Chile) to exploit these connections. In addition, the positioning of additional Trade Commissioners in emerging, priority markets helps Canadian traders and investors get the most out of market access openings.

We'd Like to Hear from Canadians Doing Business Abroad

The federal government consults industry on market access issues through the newly formed Team Canada Inc Advisory Board, which provides both market development and trade policy advice. This body engages the business community more directly, and complements the various Sectoral Advisory Groups on International Trade (SAGITs). We also welcome direct input from Canadian exporters and investors describing barriers they have encountered in foreign markets. Individuals, companies, industry associations and organizations are encouraged to contact DFAIT with specific information on tariff or non-tariff barriers and other business irritants. Business people frequently alert Canadian Trade Commissioners and other DFAIT staff (such as agri-food or investment specialists based in markets around the world) to situations requiring local advocacy or troubleshooting. Often, these problems are reported to DFAIT headquarters for particular consideration from an overall market access perspective. Business people are invited to report problems they are experiencing by communicating in strictest confidence to:

"Foreign Trade and Investment Barriers Alert"
Department of Foreign Affairs and International Trade
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Fax: (613) 992-6002
e-mail: eat.extott@extott14.x400.gc.ca

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

2. GETTING THE INTERNATIONAL RULES RIGHT: THE WORLD TRADE ORGANIZATION

Improved access to world markets depends upon an open and fair international trading system. The WTO, formed in 1995 to succeed the General Agreement on Tariffs and Trade (GATT), is the cornerstone of the international trading system, overseeing the administration and functioning of multilateral trade agreements and helping to maintain the rules governing world trade. The WTO is a fundamental element of Canada's bilateral trade relationships with other countries, including those with which Canada has concluded free trade agreements.

For Canada, a nation heavily dependent on trade, effective trade rules are vital to ensure stable economic growth, and to prevent bigger and more powerful economies from operating outside the rules. That is why Canada played an important role in the creation of the WTO, and why it will continue to participate in the entire range of WTO activities. In 1997, several important breakthroughs were achieved at the WTO that will enhance access to world markets for Canadian exporters, for example, the conclusion of the Information Technology Agreement, and agreements on Financial Services and Basic Telecommunications.

In May 1998, Canada will participate in the WTO Ministerial Conference and 50th anniversary celebrations of the GATT in Geneva, Switzerland. This will be an opportunity for WTO members to take stock of the tremendous contribution that the multilateral trading system has made to global welfare, development and growth since the GATT entered into force in 1948. As well, they will be able to encourage the continued implementation of existing commitments, and set the course to address the challenges that lie ahead.

IMPROVING ACCESS FOR TRADE IN GOODS

Information Technology Agreement

The Information Technology Agreement (ITA) was concluded in March 1997 with the participation of Canada and 42 other governments creating a duty-free market representing over 92% of the US\$500-billion-a-year world trade in information technology (IT) products. The ITA provides for the staged elimination by the year 2000 (longer in the case of some products and some countries) of most-favoured-nation (MFN) tariffs on a broad range of IT products, such as computers, software, telecommunications products, semiconductors and scientific instruments. Participating economies made their first tariff cuts on July 1, 1997.

The ITA will lead to improved market access, lower prices on inputs for Canadian producers, and growing markets. The Canadian

IT sector, which is particularly strong and internationally competitive, will benefit from the ITA. Exports showed a healthy growth from \$9.5 billion in 1992 to approximately \$17 billion in 1997.

Many of Canada's key trading partners are already members of the ITA, such as the United States, the European Union, Japan, Korea, Singapore, Chinese Taipei, Hong Kong, Switzerland, Australia, Malaysia, Thailand and India. In 1998, Canada will seek to broaden membership in the ITA to include major Latin American markets.

In finalizing the ITA, Canada and the other participants agreed to review the Agreement to, among other things, consider including additional products. This review is now under way, and negotiations will take place in the WTO during 1998 with a view to implementing any changes by January 1, 1999. The ITA Committee will also address other issues of concern to the IT sector related to NTBs, in particular in the area of regulatory reform for IT products. In this regard, the ITA Committee is conducting a survey of its members' standards and conformity assessment procedures, and Canada has fully supported this initiative. Canada has also raised the issue of import licensing in the ITA Committee, and intends to pursue this in the future work of the committee.

Further Tariff Liberalization

Canada will continue to press for WTO members to lower tariffs beyond levels agreed in the Uruguay Round in several sectors of importance to Canadian exporters. Priorities include the adoption of zero-for-zero tariff elimination on paper and paper products by additional countries, as well as acceleration of the commitments already agreed; and the establishment of new tariff elimination agreements in oilseeds and oilseed products, wood and wood products, fish and fish products and non-ferrous metals, such as aluminum. In 1998, Canada will participate in the second review aimed at including additional products in the Agreement to Eliminate Duties on Specified Pharmaceutical Products. Canada is also actively involved in preparatory work that would clear the way for any future broader negotiations on market access including tariffs.

At their annual summit meeting in Vancouver in November 1997, APEC members agreed to pursue an ongoing program of voluntary liberalization in 15 sectors with 9 priority areas: chemicals, energy sector, environmental goods and services, fish and fish products, forest products, gems and jewellery, medical equipment and instruments, telecommunications equipment and toys. They also agreed to build on APEC's leadership in these sectors as a basis for extending participation beyond the APEC region, and, where appropriate, for incorporation into the WTO. Given the size of

their markets, the strong commitment by APEC members to liberalize trade in these sectors will be an important catalyst for further multilateral liberalization at the WTO. Canada attaches considerable importance to the leadership role that APEC plays in this regard and will seek to conclude sectoral agreements in the WTO on many of the sectors identified by APEC, including environmental goods and services, fish and fish products, and forest products.

Agriculture

Canada's long-term objective is to strengthen the rules-based multilateral trading system for agriculture. Common rules that apply to all countries are important to enhance Canada's access to world markets, not only for bulk agricultural commodities, but also for the consumer-oriented and intermediate products that now contribute 40% of our agri-food exports. Through the WTO Committee on Agriculture, Canada works to ensure that market access and other commitments negotiated during the Uruguay Round are fully implemented. During 1998, the Committee will continue the informal process of analysis and information exchange that it began in 1997. This process serves as the preparatory work program toward the start of a new round of multilateral agricultural negotiations in late 1999. The Government is working closely with the provinces and consulting with the agri-food industry to ensure that a full and informed discussion of Canada's interests takes place prior to the start of those negotiations.

Technical Barriers to Trade

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

The WTO Agreement on Technical Barriers to Trade (TBT) defines the international rights and obligations of members with respect to the development and application of standards-related measures that affect trade. The Agreement is based on the principle that countries have a right to adopt and apply standards-related measures, as long as these do not restrict international trade more than is necessary. TBT-related disagreements are subject to WTO dispute settlement provisions. Canada was one of the first countries to initiate a WTO TBT-related dispute, successfully challenging unfair French regulations dealing with labelling of scallops.

Canada promotes wide acceptance of, and adherence to, the TBT Agreement and Code of Good Practice (which applies to voluntary

standards). For example, Canada has successfully pressed for foreign eco-labelling programs to follow TBT Code provisions. Under the WTO TBT Agreement, Canada will continue to facilitate access to markets by pressing for the removal of unnecessary standards-related trade barriers, and thus lower costs to producers and exporters. Improving transparency, promoting regulatory reform, aligning or harmonizing standards internationally and with trading partners, and negotiating mutual recognition agreements (MRAs) on conformity assessment are current activities directed to these ends. Canada was an active participant in the 1997 TBT triennial review, focussing on practical issues of direct interest to Canadian exporters.

Sanitary and Phytosanitary Measures

The WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures recognizes the right of members to take SPS measures necessary for the protection of human, animal or plant life or health, and sets out disciplines designed to prevent the use of SPS measures as disguised barriers to trade. The WTO Committee on Sanitary and Phytosanitary Measures facilitates the enhancement of food safety and SPS conditions internationally, promotes the harmonization and equivalence of SPS measures, and facilitates technical co-operation and consultations. The Committee is to review the operation and implementation of the Agreement three years after its entry into force. This review will begin in March 1998.

Since the implementation of the Agreement, Canada has twice used the WTO dispute settlement provisions to challenge the legitimacy of SPS measures taken by our trading partners. One challenge involved our exports of beef to the European Union (EU), and the other, our exports of fresh, chilled and frozen salmon to Australia.

Rules of Origin

The Uruguay Round WTO Agreement on Rules of Origin has established a work program to develop a common set of non-preferential rules of origin that would have general application in determining the origin of traded goods. Negotiations on these new rules have intensified as the deadline of July 1998 draws near. Canada's goal is to achieve harmonized, non-preferential rules of origin that provide greater certainty for the trading community, that are trade neutral, and that reflect the global nature of production and sourcing of goods and materials. The new rules are being negotiated by the WTO's technical committee on rules of origin, operating on the results of a three-year technical examination.

IMPROVING ACCESS FOR TRADE IN SERVICES

The WTO's General Agreement on Trade in Services (GATS) represents the first multilateral, legally enforceable framework governing trade in services, and has been in effect since the WTO came into force in 1995. In 1997, WTO members concluded agreements that brought two key sectors—financial services and basic telecommunications services—permanently under the GATS framework. The successful results in these sectors will bring important benefits not only to Canadian service providers, but also to other Canadian exporters who rely on efficient, competitively priced telecommunications and financial services to market and sell goods and services abroad. As well, WTO members made further progress on improving access for providers of professional services. In 1998, Canada will continue its preparations for the next round of comprehensive services negotiations, which are to begin by the year 2000, with the objective of achieving further improved access for Canadian service providers.

Financial Services

Canada participated in the WTO financial services negotiations, which concluded successfully on December 12, 1997, with an agreement involving 70 countries, representing over 95% of world trade in financial services. The agreement is governed by the obligations of the GATS, including the important MFN obligation which prohibits discrimination between foreign service suppliers. Under the agreement, individual countries will also adhere to individual schedules of specific commitments which describe the conditions under which foreign financial institutions may provide services such as banking, insurance, securities, and financial information services.

The financial services sector is vital to the Canadian economy. It contributes over 5% of Canada's GDP, and directly employs more than 500 000 people. Canadian financial institutions are highly competitive internationally, and many institutions earn a significant portion of their income from their foreign operations.

The provinces and the Canadian financial services industry were consulted extensively before and during the negotiations. Canadian financial institutions are supportive of the agreement, which will provide improved access to key markets in Europe, Asia and Latin America, and should lead to new export and job opportunities in Canada. Legislation to implement the agreement will be tabled in Parliament over the coming months. The agreement is to be ratified by January 29, 1999, and is scheduled to take effect March 1, 1999. Over the next year, the priority for Canada will be to ensure timely ratification of the agreement by all participants.

Basic Telecommunications Services

The GATS Agreement on Basic Telecommunications (ABT) was concluded in February 1997 with the participation of countries accounting for over 90% of worldwide telecommunication revenues, and came into effect on February 5, 1998. As of that date, both the WTO dispute settlement mechanism and the MFN principle apply to the provision of basic telecommunications services by all members of the WTO. As well, specific commitments regarding market access, national treatment, and the application of pro-competitive regulatory principles were undertaken by the 72 participants to the ABT. The ABT does not cover DTH (direct-to-home) or other broadcasting services. Canada will monitor implementation of the Agreement by its trading partners. Throughout the process, extensive consultations were held with industry, concerned government departments, and provinces. As a result, stakeholders played a significant role throughout the process and the final agreement reflects their interests. Industry therefore is supportive of the ABT.

Professional Services

Canada's goal in the ongoing WTO discussions on professional services is to obtain greater and more secure market access for providers of professional services, particularly for professions of key export interest. To this end, Canada, supported by industry, is playing an active role in the Working Party of Professional Services (WPPS) which is charged with developing disciplines to ensure that domestic regulations, technical standards or licensing requirements do not act as disguised barriers to trade.

In May 1997, the WPPS finalized a set of guidelines for mutual recognition agreements or arrangements in the accountancy sector. These guidelines are available from the WTO Web site at www.wto.org/wto/press/press73.htm. As the next step in its work program, the WPPS is making good progress in developing disciplines regarding accountancy services. The WPPS will then consider expanding its work program to include additional professions.

GOVERNMENT PROCUREMENT

With annual global expenditures in the hundreds of billions of dollars, government procurement represents a massive potential area for international trade. However, because procurement is often seen as one of the last bastions of protection for domestic industry, countries have been reluctant to agree to disciplines at the multilateral level. Canada, along with 25 other countries, is party to the WTO Agreement on Government Procurement (AGP), which came into force on January 1, 1996. The AGP provides the basis for guaranteed access for Canadian suppliers to the markets of the United States, the European Union, Japan and other key markets. Increased sectoral coverage and a reduction of

discriminatory barriers to the United States and other key markets would result in significant opportunities for Canadian exporters.

To increase business opportunities for Canadian exporters, Canada supports a range of activities in the WTO to broaden and strengthen government procurement disciplines. A review of the AGP is under way, and is expected to lead to negotiations in 1998. Canada wishes to see these negotiations focus on increased security of market access, elimination of discriminatory measures and practices, expansion of coverage, and simplification and improvement of the procedural obligations of the Agreement. The new Working Group on Transparency in Government Procurement made significant progress in 1997, and is expected to begin negotiations on an agreement this year. This represents an important first step for introducing multilateral disciplines in transparency in government procurement for all WTO members, and should help create a more level playing field in government procurement markets. Discussions are continuing in the context of the GATS to determine the scope for including government procurement disciplines under this Agreement.

TRADE REMEDIES

Canada continues to seek to improve the discipline, transparency and clarity of the use of trade remedies by its trading partners, to ensure that Canadian exporters have a stable and predictable climate in which to do business. This is particularly important now that, following the Uruguay Round, countries that previously relied on more traditional measures of protection from imports such as quotas and high tariffs, have begun to conduct trade remedy investigations. For example, in 1997, India, Indonesia and the People's Republic of China all initiated anti-dumping duty investigations against Canadian newsprint exports; this was the first use of trade remedies by these countries against Canada. Furthermore, it was the first use of trade remedies by China against any country. Canada will also continue to closely monitor investigations involving Canadian exports, scrutinize changes in the trade remedy laws and practices of Canada's most important trading partners, and make representations on individual investigations, as appropriate, to ensure that WTO obligations are enforced. Also, Canada will continue to contribute to the work of the WTO Committees on Subsidies and Countervailing Measures, Anti-Dumping Practices, and Safeguards, to ensure that all members administer their trade remedy legislation in a WTO-consistent manner. Finally, Canada will continue to pursue the possibilities for greater trade remedy reform within free trade areas, as markets become more integrated.

DISPUTE SETTLEMENT

The WTO dispute settlement system continues to demonstrate that it is one of the most significant achievements of the Uruguay Round. Improved rules, including quasi-automaticity in the establishment of panels and in the adoption of panel reports, as well as the newly established Appellate Body, contribute to making the WTO Dispute Settlement Understanding (DSU) a success. The fact that over 100 disputes, regarding some 80 distinct matters, have been launched in the WTO in three years of operation is testimony to the level of confidence that WTO members have in the improved dispute settlement mechanism. Although the system is being used extensively, it remains effective and efficient. The fact that many disputes have been settled before going to the panel stage shows that the WTO is capable of settling trade disputes between members, including some of the most sensitive ones.

Canada will continue to use the WTO dispute settlement mechanism whenever it is necessary to ensure that our exporters do not face barriers inconsistent with the WTO agreements. Canada has thus been a complainant in 9 cases under the DSU, and has joined other members' consultations, or has intervened in panel proceedings, in some 30 other cases.

In January 1998, Canada reached an agreement with Japan on the implementation of a panel's recommendations that had ruled that Japanese liquor taxes discriminated against imports in a manner inconsistent with Japan's obligations under the WTO. This agreement, which includes compensation for the longer-than-normal implementation period for the liquor tax-rate adjustment, will result in duty-free market access in Japan by April 2002 for Canadian-produced distilled spirits.

On February 13, 1998 the Dispute Settlement Body (DSB) adopted the panel and Appellate Body reports, which found that the EU ban on beef produced with growth-promoting hormones violated the EU's WTO obligations. Canada will closely monitor the EU's implementation of the panel and Appellate Body recommendations. The final report of the panel regarding our complaint against the Australian ban on imports of fresh, chilled and frozen salmon from Canada is expected to be issued by the end of May.

Canada also settled two trade disputes in 1997: in July, regarding Hungarian export subsidies in respect to agricultural products, and in December, regarding India's quantitative restrictions on imports of agricultural, textile and industrial products. One dispute is still at the consultation stage, namely Brazil's export subsidy program (PROEX) as it applies to aircraft.

Canada actively follows the development of trade disputes involving other WTO members, whenever our trade interest or

systemic interest in the WTO warrant our intervention. Canada has joined a number of other members' consultations (for example: the EU's complaint about Japanese measures affecting imports of pork; a complaint by the United States about Philippines' measures affecting pork and poultry; Argentina's complaint against the U.S. tariff rate quotas for imports of peanuts). In a few other cases, Canada has reserved third-party rights to present arguments to panels, such as the complaints against Korea and Chile concerning taxes on alcoholic beverages.

DSB members will review the DSU in 1998. This review, which must be completed by January 1999, will allow members to determine whether any improvements or clarifications are required to continue the efficient and effective functioning of the WTO dispute settlement system.

ACCESSIONS TO THE WTO

The WTO currently has 132 members, and a further 30 countries and customs territories have applied to join. China, Russia, Chinese Taipei (Taiwan), Saudi Arabia, Ukraine, Estonia, Latvia and Lithuania are among the 20 applicants with which active negotiations are under way. As it did last year, Canada will continue in 1998 to take an active role in accession negotiations. Canada supports the expansion of WTO membership for two reasons:

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

The negotiations take place on two parallel tracks—multilateral and bilateral. For each accession, a WTO Working Party comprising interested WTO members examines the applicant's trade regime and identifies any reforms that may be required to conform with WTO rules. By participating in Working Party deliberations, Canada satisfies itself that the accession will bring about more predictable, less discretionary trading conditions in the applicant's market.

In bilateral market access negotiations, Canada focusses on obtaining the reduction or elimination of tariffs and NTBs that affect access for goods that are of current or future export interest to Canadian companies. These include agricultural, fish, resource and industrial products. Canada expects applicants to bind their tariff commitments; to provide non-discriminatory access (for example, in the oilseeds sector); and to join the various zero-for-zero and harmonization initiatives developed by WTO members, including the ITA. Similarly, Canada aims at achieving better access in sectors targeted by services firms, by

seeking binding commitments in the four "modes" of services trade: cross-border supply of services, consumption abroad, commercial presence and the movement of persons. Accession negotiations offer a unique opportunity to resolve Canadian market access problems in the applicants' markets.

CAPACITY BUILDING

As part of its commitment to the WTO, Canada recognizes the importance of ensuring that developing countries and economies in transition become fully integrated into the global trading system. Canada works through the WTO, and other organizations such as the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme, the International Trade Centre, the World Bank, the International Monetary Fund and the Commonwealth Secretariat, as well as bilaterally, to provide trade-related technical assistance to developing countries and economies in transition to support the accessions of new members to the WTO and to assist in their integration. Canada focusses on building capacity in both governmental and private sector organizations to create a greater understanding of the multilateral rules and how to implement and benefit from them. Canadian exporters will enjoy more transparent and predictable market access in countries that have fully implemented their WTO obligations and commitments.

3. INVESTMENT

Canada's economic performance is increasingly linked to international trade and investment. The opening of global markets to Canadian goods and services in the past several decades has served as one of the main engines of growth for our economy. In concert and closely connected with these developments, Canadian investment abroad and foreign direct investment in Canada have become principal sources of growth and job creation. A transparent, positive and secure environment for international investment, both in Canada and abroad, is crucial to our continued economic growth and job creation.

Canada's outward investment has grown rapidly, particularly in the last decade. In the period from 1986 to 1996, Canadian direct investment abroad climbed from \$64.7 billion to \$170.8 billion. These figures show that Canadian companies increasingly invest in other markets through the establishment of new enterprises, or through mergers, acquisitions, partnerships, joint ventures and strategic alliances with other firms. Their objectives are clear: to increase the competitiveness of their operations; to penetrate new markets; and to acquire new technologies, resources and skills. Such investment abroad brings concrete benefits to Canada in terms of export opportunities and access to competitive inputs and R&D activities, leading to job creation back home in Canada.

The United States is Canada's most important investment partner, accounting for over 50% of total outward direct investment, followed by the United Kingdom. Although the United States and the United Kingdom remain important investment partners, Canada's investment relationship is diversifying toward other EU countries and non-OECD members. The effort by Canadian businesses to diversify their global operations is a driving force behind these changes.

Intra-firm trade (e.g. trade between a Canadian business and its foreign affiliates) is a concrete example of the outcome of decisions to invest abroad. The United Nations Conference on Trade and Development (UNCTAD) recently estimated that over one third of international trade in the global market for manufactured goods is undertaken between parent firms and their foreign subsidiaries. This relationship is particularly evident in intra-firm trade between Canada and the United States. It has been estimated recently that about 46% of Canadian exports to the United States are intra-firm in nature, as well as about 49% of U.S. exports to Canada.

Over the past decade, international investment flows have been at the centre of a restructuring global economy. An exponential expansion in direct investment flows has taken place in this

period; these flows are increasing at an average annual rate of about 14%. In 1996, worldwide annual direct investment flows were estimated to be an unprecedented US\$350 billion. World stocks of foreign investment reached an estimated US\$3.2 trillion by 1996. In 1996, sales attributed to these foreign affiliates were over \$6 trillion.

While the larger portion of this economic activity continues to be among countries in the developed world, the developing world and emerging economies are also becoming active, particularly (but not exclusively) as host economies for foreign investors. An unprecedented US\$100 billion was invested in the developing world in 1995 alone. Clearly, countries at diverse stages of development find it in their interest to welcome foreign investment; and are competing to attract it.

Inward foreign direct investment (FDI) is a principal source of growth because it is an important supplement to domestic savings. Investment in plant, equipment and production processes is fundamental to Canada's long-term competitiveness. FDI also provides access to global technology and management expertise. Investment in research and development creates new products and processes that will increase our productivity and make Canada more competitive internationally. These supplemental resources also promote Canada's export competitiveness.

One recent assessment indicates that a \$1-billion increase in new inward investment to Canada generates, over a five-year period, about 45 000 jobs and \$4.5 billion in GDP. This assessment estimates that one job in 10, and about 50% of Canada's total exports (and 75% of manufacturing exports) derive from inward FDI. A large proportion of profits from new investments (about 50%) is reinvested in Canada, contributing to a higher growth rate and a more rapid rise in Canadian living standards.

Canada provides an attractive environment for foreign investors. Our labour force is one of the most highly skilled and best educated in the world. Canadian infrastructure—roads, airports, ports, plants, equipment—is "leading edge." The Canadian economy is competitive and knowledge-intensive in such sectors as energy; mining; agri-food; forestry and paper; automobiles; machinery and transportation equipment; finance; telecommunications; biotechnology; computer software; medical devices; pharmaceuticals; and ocean technologies. Our excellent health-care and education systems are cornerstones to our high quality of life.

These Canadian advantages have not been achieved by compromising our overriding economic and social objectives. Foreign investors in Canada are subject to the same laws as are Canadian investors, including those aimed at protecting the environment, ensuring the

highest labour, health and safety standards, taxation, building codes and municipal zoning— indeed, all of the laws and regulations that affect businesses operating in Canada.

CANADA'S MULTI-TRACK POLICY APPROACH

The growth in foreign investment by Canadian business has increased the demand for improved access, and greater protection, for Canadian investments. The government's policy initiatives in the area of international investment, therefore, focus on providing both an attractive environment for inward investment, and access, transparency and protection for Canadian investors abroad. International rules, which are still in their infancy in the international economic system, are essential tools in providing a stable, transparent and open environment for international investment flows. Such rules are being developed in a number of forums, including the WTO, under the auspices of the OECD, and at the regional and bilateral levels, although there is no single set of comprehensive rules at this time.

Bilateral and Regional Initiatives

Canada has instituted an active bilateral program of investment negotiations. A central objective of the Foreign Investment Protection Agreement (FIPA) program is to provide guarantees, transparency and access for Canadian investors in specific priority emerging and developing economies. The federal government has negotiated 24 of these agreements since 1989—eight of which were signed in 1997—and is currently negotiating agreements with important emerging countries such as China, Russia, India, Brazil and Argentina.

Canada negotiated a high-standard investment agreement with the United States and Mexico as part of the NAFTA in the early 1990s. The NAFTA investment agreement has been considered by many to be a good model on which to base other negotiations. It is the model used for the provisions on investment in the 1997 Canada-Chile Free Trade Agreement (CCFTA). Canada is also actively involved in regional investment discussions with Pacific Rim countries through the APEC initiative, and with our investment partners in the Americas through FTAA investment discussions. The latter discussions are expected to evolve into the commencement of negotiations this year.

Multilateral Initiatives

Multilateral Agreement on Investment (MAI)

In May 1995, the member countries of the Organization for Economic Co-operation and Development (OECD) agreed to launch negotiations for a Multilateral Agreement on Investment (MAI), open to accession by non-OECD countries.

Canada's participation in the OECD MAI negotiations is an important part of Canadian efforts to develop international rules on investment. A successful MAI negotiation will not only provide a stable, transparent and open environment between Canada and its major investment partners, but also represent a first step in pursuing Canada's investment objectives for a worldwide treaty negotiated through the WTO, the ultimate destination and most effective home for a truly multilateral investment agreement.

The MAI constitutes a first attempt to elaborate a set of multilateral investment disciplines, similar to those governing international trade. It would complement the investment rules of the NAFTA, the existing, but limited rules of the WTO, and the bilateral investment agreements of Canada and many other countries.

Under the MAI, Canadian investors abroad would be accorded a similar level of protection and fair treatment that foreign investors currently receive in Canada. This is particularly important as the level of Canadian investment abroad increases and as Canada seeks to diversify its markets beyond the United States.

The MAI would include two "core" principles: non-discrimination (i.e. national treatment and most-favoured nation treatment); and investment protection (i.e. clear rules governing expropriation, requirements for prompt and effective compensation, and unrestricted transfer of funds). These principles would be supported by an effective dispute settlement mechanism, similar to that of the NAFTA, allowing for resolution of state-to-state and investor-to-state disputes.

The MAI will also provide for general exceptions and country specific reservations from MAI disciplines. In particular, Canada will ensure that the government preserves its full freedom of action in key areas, including health care, social programs, education, culture and programs for aboriginal peoples and programs for minority groups. Canada will also ensure that the MAI includes a narrow interpretation of "expropriation" that makes it entirely clear that legislative or regulatory action by government in the public interest is not expropriation requiring compensation, even if it has adverse profitability consequences for companies or investors.

In areas such as performance requirements, temporary entry and stay of key personnel, privatization, and actions of monopolies and state enterprises, the MAI would provide similar rules to those found in existing investment agreements.

Canada's objective in the MAI negotiations is to get from OECD countries the same rights we have secured from our NAFTA partners

and some 24 other countries through our Foreign Investment Protection Agreements. The MAI also offers an opportunity for Canada to address other issues that are not covered in existing agreements. For example, Canada is seeking the inclusion in the MAI of provisions to provide greater protection to our investors and their investments abroad from the extraterritorial application of domestic jurisdiction.

As of February 1998, it appears unlikely that the April 1998 deadline for conclusion of the negotiations will be met.

The WTO

A multilateral rules-based system of universal membership, encompassing both trade and investment disciplines, is the preferred means of providing a stable, secure and fair international environment for Canadian firms operating abroad and for attracting foreign investment to Canada. Historically the GATT (and now the WTO) has been the cornerstone of Canadian trade policy, and trade's close relationship with investment makes it desirable that investment disciplines be fully integrated into the WTO. Consistent with this objective, Canada was a leading advocate for the establishment of the WTO Working Group on Trade and Investment at the 1996 Singapore Ministerial Meeting, and since then has played an active role in Working Group activities.

4. OPENING DOORS TO THE AMERICAS

THE NAFTA

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

The NAFTA did not affect the tariff phase-out of the Canada-U.S. FTA, which was completed on January 1, 1998. As of that date, virtually all tariffs on Canada-U.S. trade in originating goods were eliminated. Some tariffs remain in place for certain products in Canada's supply-managed sectors (e.g. dairy and poultry), as well as sugar, dairy, peanuts and cotton in the United States. The NAFTA provides for virtually all tariffs to be eliminated on trade in originating goods between Canada and Mexico by January 1, 2003.

A first round of accelerated tariff reductions on an agreed number of goods was completed in 1997 and announced by Ministers at the NAFTA Commission meeting held in March 1997. A second round of tariff cuts, currently under discussion, is expected to be completed in mid-1998. Also at the March 1997 Commission meeting, Ministers committed to the establishment of a NAFTA Coordinating Secretariat to strengthen NAFTA implementation and improve coherence across the NAFTA work program. They also received and adopted reports regarding the work of the over 30 trilateral committees and working groups. These bodies were established under the Agreement to further facilitate trade and investment, and to ensure effective implementation and administration of the NAFTA's rules. Canada is pursuing work on, in particular, rules of origin, customs, agricultural trade and subsidies, standards, government procurement, investment, services and temporary entry of business people.

Total trade and investment among Canada, Mexico and the United States has increased substantially since the NAFTA was implemented in 1994 as has Canada's merchandise trade with both the United States and Mexico. Two-way merchandise trade between Canada and Mexico has grown by 80%, reaching \$8.2 billion in 1997. Our merchandise trade with the United States is up 63% over the same period, reaching \$456 billion in 1997. Approximately \$1.4 billion in goods and services now crosses the Canada-U.S. border each day.

Under the NAFTA, Canadian producers are better able to realize their full potential by operating in a larger, more integrated and efficient North American economy. Consumers benefit from this heightened competition, with better products, services and prices.

Enhanced access to NAFTA markets, and the existence of clear rules on trade and investment have enhanced Canada's attractiveness to foreign and domestic investors. Total FDI into Canada reached \$180 billion in 1996, with the majority of this investment coming from the United States. FDI into Canada from the United States reached \$125 billion in 1996 (up 37% over U.S. FDI into Canada in 1993—the last year prior to the implementation of the NAFTA), while investment from Mexico reached \$239 million in 1996 (up 55% over 1993). Canadian direct investment in the NAFTA countries has also increased, reaching \$92.9 billion into the United States in 1996 (up 37% over 1993) and \$1.3 billion into Mexico (more than double the 1993 level).

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

Chapter Nineteen of the NAFTA provides a unique system of binational panel review in place of final judicial review for domestic decisions regarding anti-dumping and countervailing duty matters. A constitutional challenge in the United States of the Chapter Nineteen dispute settlement provisions was dismissed for lack of standing in November 1997.

Chapter Twenty includes provisions relating to the avoidance or settlement of disputes regarding the interpretation or application of the NAFTA, except for matters covered under Chapter Nineteen. There are also special rules for matters under Chapters Eleven (Investment) and Fourteen (Financial Services).

Several disputes were either settled, or remained pending in 1997. These include two disputes between Canada and Mexico regarding anti-dumping determinations by the Mexican Ministry of Trade and Industrial Development (SECOFI), which were appealed by Canadian steel producers under Chapter Nineteen. Panel decisions on these cases were made in 1997, resulting in the termination of

anti-dumping duties in the first case, and a recommendation for SECOFI to reconsider a number of issues in the second case. Canada also awaits panel decisions on two anti-dumping findings on Canadian steel exports to the United States. Further, two Chapter Nineteen panels are reviewing Canadian anti-dumping determinations that are due in 1998, one of which regards steel exports from Mexico and the second, concrete panel exports from the United States.

The first NAFTA investor-state dispute involving Canada was launched in 1997. This case is between the Government of Canada and Ethyl Corporation (USA), and relates to Canadian legislation regulating the importation and interprovincial trade of the fuel additive MMT. An international arbitral panel has been established and has commenced hearings.

UNITED STATES

	Goods (1997)	Services (1997)
Exports	\$244.1 billion	\$24.2 billion
Imports	\$212.2 billion	\$30.2 billion

Rank: 1 (81% of total Canadian goods exports)

Overview

Canada and the United States are each other's largest trading partners, moving approximately \$1.4 billion worth of goods and services across the border each day. In 1997, Canada exported \$244.1 billion in goods to the United States and imported \$212.2 billion in goods from that country. Canada exported \$24.2 billion in services and imported \$30.2 billion in 1997. Canada's merchandise exports alone to the United States support over 2 million Canadian jobs, and generate 28% of Canada's GDP. Fully 81% of Canadian merchandise exports are destined for the United States. Since the implementation of the Free Trade Agreement (FTA) in 1989, two-way merchandise trade has doubled. Between 1992 and 1996, two-way merchandise trade increased by an average of 14.8% per year. This contrasts with an average annual increase of 8% over the same period for Canada's trade with the rest of the world.

U.S. direct investment in Canada has increased from approximately \$85 billion in 1990 to \$125 billion in 1996. The FTA, and subsequently the NAFTA, have had other positive spin-offs. For example, the Open Skies Agreement signed in February 1995 has opened new opportunities for both Canadian and U.S. airlines.

Canada's trade and investment relationship with the United States is quantitatively and qualitatively different from that with any other country. Excellent opportunities exist for Canadian goods and services exporters in virtually every sector. To exploit these opportunities, DFAIT's activities concentrate on introducing small- and medium-sized enterprises (SMEs) to the market. The New Exporters to Border States (NEBS) program has been highly successful in this regard, having helped more than 8 500 companies make their first foray into the U.S. market. The Canadian government is developing a process to help Canadian exporters that have succeeded in more than one region of the United States to "graduate" to other international markets.

The Canadian government has produced a new investment development strategy to attract and expand investment from the United States and to encourage strategic alliances with U.S. companies. The strategy outlines the Government's plan to promote investment

attraction through the use of a more integrated, sectorally focussed approach which builds on the co-operation between DFAIT and its Team Canada partners.

In promoting Canada's market access and business development interests in the United States, it is important to target the various regions of the country. Minister-led missions to various U.S. regions, most of them having larger markets than many countries, help to forge the necessary relationships with government and business leaders that help advance Canadian priorities. A program of visits by several federal Deputy Ministers also serves to promote Canadian interests in this market.

While periodic issues and some long-standing irritants are inevitable in an economic relationship of such complexity and depth, one of the principal benefits that Canada has derived from the NAFTA is the mechanisms that allow for the clear management and settlement of disputes.

Market-opening Results in 1997

In 1997, market-opening results were as follows:

- ! Building on the 1995 *Accord on our Shared Border*, Canada and the United States pursued several initiatives to speed road, rail and sea transit, as well as in-transit preclearance at Canadian airports.
- ! Amendments to Canada's Foreign Extraterritorial Measures Act effectively serve to prevent the enforcement of judgments under the U.S. Helms-Burton law in Canadian courts, and allow a Canadian company to sue to recover any damages awarded against it by a foreign court.
- ! Canada and the United States implemented an agreement on trade in sugar and sugar-containing products (SCPs) that gives Canadian exporters of these products assured access to the U.S. market.
- ! A comprehensive allocation system under the five-year Canada-U.S. Softwood Lumber Agreement was successfully implemented on behalf of Canadian industry and the producing provinces. This system provides for greater predictability for Canadian exporters who are planning to ship softwood lumber to the United States.
- ! Canada successfully defended against U.S. pressure to reduce Canadian exports of wool suits, sport coats and pants.
- ! Unrestricted access to the U.S. grain market was maintained in the face of political pressure on the administration from

Congressional representatives for a return to a more restrictive import regime.

- ! A group of 21 non-profit citizens' organizations filed a challenge on the constitutionality of Chapter Nineteen of the NAFTA and the FTA. That challenge was later dismissed for lack of standing before the court.

Canada's Market Access Priorities for 1998

Over the coming year, Canada will:

- ! Defend access to the U.S. market by exercising its rights under existing trade agreements and by resisting U.S. measures that constrain Canada's access to its most important trading partner.
- ! Continue to monitor closely and respond to key measures that may distort trade and investment decisions in the North American market.
- ! Continue to resist the extraterritorial application of U.S. laws.
- ! Work closely with the United States to enhance co-operation along our common border.
- ! Continue to advance Canadian market access objectives in other areas, such as services, government procurement, and the application of trade remedies.
- ! Work with the United States to complete a Mutual Recognition Agreement (MRA) on fish inspection systems as soon as possible.

The remainder of this chapter provides additional detail on key U.S. market access issues for Canada over the next year. It should not be regarded as an exhaustive inventory of obstacles faced by Canadian firms doing business in the United States, nor as an exclusive list of issues that the Canadian government will pursue.

EXERCISING CANADA'S RIGHTS UNDER TRADE AGREEMENTS

Sugar and Sugar-containing Products

On October 1, 1997, Canada and the United States implemented an agreement on trade in sugar and sugar-containing products (SCPs). Canada received a country-specific allocation of 10 300 tonnes of the 22 000 tonne U.S. refined sugar TRQ (double the level of Canadian exports in 1996-97). Canada will also be able to compete with other countries for the non-allocated portions of the refined sugar TRQ (approximately 7 500 tonnes), which allow

Canadian firms to ship significantly more than the amount contained in the Canada-specific allocation. With respect to SCPs, Canada obtained an allocation of 59 250 tonnes of the 64 709 tonne U.S. TRQ, which approximates our recent historical access. For the quota year 1997-98, Canadian companies will export well over twice as much refined sugar to the United States than they exported in quota year 1996-97, although still below our pre-WTO levels of exports. The country-specific allocation ensures that Canadian exporters will have guaranteed access to the U.S. market for SCPs, and ensures protection from the recent incidents of increased international shipments to the U.S. marketplace.

In return, Canada has agreed not to pursue NAFTA dispute settlement procedures with respect to the U.S. Re-export Program for SCPs while the agreement is in effect. The government will monitor the use of the Re-export Program on Canada for any changes that may have an impact on Canadian interests. If necessary, the agreement can be terminated on a six months' notice. In that event, Canada would be in a position to resume a NAFTA challenge of the Program.

In working toward this agreement, the government consulted closely with provincial governments, Canadian sugar beet growers, and refiners and manufacturers of SCPs.

Softwood Lumber Agreement

The Canada-U.S. Softwood Lumber Agreement, implemented on April 1, 1996, provides for five years of predictability and stability in our softwood lumber trade with the United States. The Agreement provides Canadian exporters with a guarantee against U.S. trade actions for five years. The allocation system, under which allocations are assigned on a company basis based on their traditional exports to the United States, allows Canadian companies to make rational, long-term decisions on marketing and shipping their lumber to the United States.

Under the Agreement, softwood lumber exports to the United States originating from British Columbia, Quebec, Ontario and Alberta that exceed 14.7 billion board feet a year will be subject to a US\$50 per thousand board feet fee for the first 650 million board feet, and a US\$100 per thousand board feet fee for quantities exceeding this amount.

In addition, the Agreement provides for an increase in softwood lumber exports of 92 million board feet without fee for each calendar quarter, when the average Great Lakes price exceeds a certain level. During the first seven quarters of the Agreement, Canada has earned the right to export additional softwood lumber to the United States six times.

The Softwood Lumber Agreement is entering the third year of its five-year span. Key objectives of 1998 are to continue smooth operation of the quota allocation system, to enhance the fee collection system, and to fully complement the verification process. Canada will also continue to manage this issue with the United States and will maintain consultations with affected provinces and stakeholders.

Sanctions

Canada is concerned over the proliferation of unilateral trade measures taken by the United States. Enactment of legislation with extraterritorial application and the use of unilateral economic sanctions in support of foreign policy harms the legitimate right of Canadians to freely trade and invest provided that they conduct their business affairs in accordance with Canadian law, the law of the country in which they are operating and international trade practice. At the federal level, the most notable examples are the Helms-Burton Act and the Iran Libya Sanctions Act (ILSA). States and municipalities have also introduced sanctions legislation mandating procurement restrictions and divestiture requirements targeting certain countries.

The Helms-Burton Act is designed to chill third-country investment in Cuba by exposing foreign nationals who engage in business activities in expropriated Cuban property to claims in U.S. courts against that property. It also provides for the denial of entry to the United States of foreign individuals or companies who "traffic" in that property. The legislation violates U.S. obligations under international agreements, notably the NAFTA and the WTO, and is inconsistent with generally recognized principles of international law.

The Iran Libya Sanctions Act (ILSA) seeks to dissuade companies from making significant investments in these countries' oil and gas sectors, interfering with the right of non-U.S. companies to conduct legitimate business in Iran. At the same time, Canada has taken strict measures to ensure that Canadian trade will not contribute to the military or possible nuclear, biological and chemical weapons capabilities of Iran and Libya.

Continued temporary suspensions of the right to sue under Title III of Helms-Burton do nothing to address the long-term problems of the legislation. Liability for Canadian companies has been accruing since 1996, and senior officials from one Canadian company have received letters under Title IV advising them that they will be barred entry to the United States.

Canada has expressed strong opposition to the extra-territorial nature of the legislation and the negative impact it has on legitimate Canadian trade and investment ties with Cuba. In both

domestic and multilateral fora, Canada has taken action to respond to the Helms-Burton Act. Domestically, amendments were made in September 1996 to the Foreign Extraterritorial Measures Act (FEMA) to provide Canadian companies enhanced means to defend themselves against Helms-Burton actions. Multilaterally, Canada is a third party to the European Union challenge of the legislation at the WTO. Canada has also held NAFTA consultations with the United States and retains the option of requesting a NAFTA panel.

Alcoholic Beverages

In February 1992, Canada was a complainant against the United States in a panel under the GATT, which examined U.S. federal and state measures relating to imported beer, wine and cider. The panel found, for example, that certain provisions of the federal excise tax, and those of many states, discriminated against imports, and thus were inconsistent with the GATT. Furthermore, the panel found that many other state measures also constituted discriminatory treatment of imported alcoholic beverage products, and recommended that the U.S. federal and state governments bring their inconsistent measures into conformity with their obligations under the GATT. Given that many of the GATT panel's recommendations have yet to be implemented, Canada is pursuing this issue further with the United States.

RESISTING U.S. MEASURES THAT CONSTRAIN ACCESS

Wheat and Barley

The U.S. administration announced in September 1996 that it would continue its unilateral monitoring of U.S. imports of Canadian wheat and barley, and that it would seek consultations with Canada if imports were to rise above particular trigger points at specified periods during the year. DFAIT and AAFC officials met with their counterparts in the office of the U.S. Trade Representative and the U.S. Department of Agriculture on four occasions during 1997, to discuss Canada-U.S. trade in grains. One outcome of these discussions was Canada's suspension of TRQs for U.S. barley and barley products. The private sector also had discussions: Prairie Pools Incorporated (PPI) and the American Farm Bureau Federation (AFBF) met on three occasions, and are expected to work towards the establishment of a binational consultative committee on grain, as recommended in 1995 by the Canada-U.S. Joint Commission on Grains. Canada considers that its exports to the United States continue to be fairly traded, and has no interest in participating in any arrangement that would limit Canadian exports to that country.

The U.S. Export Enhancement Program (EEP), introduced in May 1985, is authorized under the Federal Agricultural Improvement and Reform Act of 1996 ("Farm Bill"). The Agriculture Department

may subsidize a range of U.S. agricultural exports (mainly grains and oilseeds) to targeted markets. Initially, the justification for the EEP was the protection of market share from subsidized EU commodities, but over time, the targets expanded. This resulted in a severe reduction in overall world prices and lower returns to Canadian producers. In light of strong international prices, the U.S. government suspended the use of EEP for grains since July 1995, but has come under pressure to use it again. Canada has stated to the United States that a decision to use the EEP would inflate U.S. market prices, making the U.S. market even more attractive for Canadian grains, thus exacerbating U.S. concerns about imports from Canada.

Wool Suits

U.S. men's wool apparel producers continue to press Congress and the administration to obtain reductions in the levels of wool suits, sport coats and pants that enter the country at NAFTA rates of duty under the NAFTA Tariff Preference Level (TPL) for wool apparel. Canada will continue to oppose any legislative or other initiatives in the United States to reduce our exports. The pressure from the United States is likely to persist in 1998, and Canada will defend the access acquired for these products in the NAFTA.

MONITORING DEVELOPMENTS AFFECTING CANADIAN INTERESTS

Fast Track

"Fast track" is a mandate to the U.S. administration by which Congress approves or disapproves, without amendment, trade liberalization agreements. Congress postponed its vote at the request of the President in November 1997, when it became clear that the legislative package put forward by the administration did not have sufficient support to pass. While the administration is committed to revisiting the issue, no time line is apparent. Canada will carefully monitor the domestic debate when re-engaged to ensure that Canada's interests are not adversely affected.

OTHER ISSUES

General Accounting Office Investigation

In September 1997, at the request of U.S. Senator Dorgan (D-ND), the GAO launched a review of U.S. imports of Canadian wheat. In December 1997, the GAO travelled to Ottawa and Winnipeg to meet with Canadian government and industry representatives, and is expected to issue its report in September 1998. Canada will continue to work closely with the GAO and monitor the investigation carefully.

Customs and Administrative Procedures

Following the visit of the Prime Minister to Washington in 1997, Canada and the United States pursued several initiatives to speed

road, rail and sea transit, as well as in-transit preclearance at Canadian airports. To realize the benefits of free trade, Canada and the United States are creating a "smart" border that facilitates trade and tourism, but keeps illegal goods and services out—through high-technology streamlining of processes, and the provision of adequate infrastructure. The two countries are enhancing the processing of customs data electronically at border crossings; reducing the number of stops for carriers moving goods in-transit through either country; promoting the use of joint or shared border facilities; and introducing new technologies to detect drugs and to enable remote inspection of travellers. Canada and the United States will also work to ensure the competitiveness of the St. Lawrence Seaway by promoting its usage and improving the efficiency of its operations.

U.S. Fish and Wildlife Service Border Inspections

The U.S. Fish and Wildlife Service (FWS) inspects all imports of wildlife and wildlife products at the U.S. border to ensure U.S. compliance with its commitments as a signatory to the Convention on the International Trade in Endangered Species (CITES). Consumer products, such as fur coats and Native Canadian crafts, which utilize wildlife articles, are included in the inspection requirement.

Approximately three years ago, the FWS raised its per shipment inspection fee from US\$25 to US\$55. The Government has received complaints that the fee adversely affects Canadian exports of low-value shipments. There have also been complaints from shippers of game meats that FWS personnel are not available at certain ports at certain times. The FWS also charges the fee irrespective of whether it actually performs an inspection.

Canadian officials are developing proposals that would provide relief for Canadian exporters without compromising either Canadian or American commitments to environmental protection.

Intellectual Property

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

In 1989, a GATT panel found that Section 337 violated GATT obligations. The Uruguay Round implementing legislation has removed some of the inconsistencies with new WTO-TRIPS

obligations, but Section 337 complaints are still being brought against Canadian companies, who thereby face additional procedural burdens in defending against allegations of IP infringements. The Government of Canada will monitor specific cases to determine what steps might must be taken to ensure that Canadians are treated in accordance with U.S. international obligations.

Trade Remedies

Consistent with the Government's priority of resolving trade remedy issues with the United States, working groups on dumping and subsidies/countervailing duties were established under the North American Free Trade Agreement (NAFTA). The working groups were asked to seek solutions that would reduce the possibility of disputes concerning the issues of subsidy, dumping and the operation of trade remedy laws. Their report was released in March 1997. While the scope of Canadian efforts to achieve reform in these working groups was very broad, the final agreement focused on procedural improvements respecting the conduct of anti-dumping and countervailing duty investigations. NAFTA Ministers also noted at that time that governments would continue to consult (under the provisions of NAFTA Chapter Nineteen) on issues related to trade remedies with the objective of promoting fair trade and reducing the possibility of disputes. Canada will continue to use this and other opportunities to pursue its agenda for trade remedy reform within the NAFTA trade area.

Moreover, Canadian officials will continue to monitor trade remedy developments in the United States to ensure that changes to U.S. trade law practice do not unduly harm Canadian exporters caught in U.S. trade remedy investigations and reviews. In this regard, Canada submitted, on three separate occasions, extensive comments on regulatory proposals by the U.S. Department of Commerce and the U.S. International Trade Commission regarding the conduct of anti-dumping and countervailing duty investigations and reviews. In the context of U.S. reviews, Canadian officials assisted Canadian producers of steel, brass, magnesium and live swine.

Electricity

The United States is moving rapidly toward increased competition in the electricity sector, creating new opportunities for Canadian utilities. As part of the deregulation of the wholesale sector, the U.S. Federal Energy Regulatory Commission (FERC) requires that Canadian utilities seeking maximum access to the U.S. market offer reciprocal access to their own transmission lines. The United States is also considering deregulation at the retail level and some legislative proposals include retail reciprocity requirements. There are initiatives to give FERC some oversight of transmission reliability standards which are currently set by the North American Electric Reliability Council

(NERC), a utility industry association. Canada, in consultation with provincial government officials and the industry, will continue to monitor developments in the U.S. electricity sector, to assess implications with respect to U.S. international trade obligations, as well as other commercial and economic factors.

Industrial Alcohols

Canadian exporters of industrial alcohol to the United States must channel shipments through a U.S. distilled spirits plant (DSP), to enter the manufacturing process free of U.S. excise tax. This negatively affects the competitiveness of their product, since these DSPs are operated by U.S. competitors, or potential competitors, of Canadian producers.

Canada is preparing a proposal, for presentation to U.S. authorities, on alternative arrangements to allow product to be shipped directly to U.S. industrial users.

Mutual Recognition Agreement on Fish Inspection Systems

The United States adopted mandatory Seafood Hazard Analysis Critical Control Point (HACCP) regulations on December 18, 1997, which apply to both domestic and imported products. Canada and the United States have agreed to work toward the establishment of an MRA on fish-inspection systems. As an interim arrangement, the two sides exchanged letters in December, whereby the Food and Drug Administration (FDA) provided assurances that U.S. importers purchasing from Canadian fish and seafood facilities included on the Canadian Food Inspection Agency's plant list will be deemed to have met the "affirmative steps" obligations of the new HACCP regulations. This arrangement has effectively allowed the uninterrupted flow of Canadian seafood products. Canada and the United States have agreed to continue working co-operatively in an effort to complete the MRA as soon as possible.

IMPROVING ACCESS FOR TRADE IN SERVICES

Financial Services

Canada is closely monitoring initiatives in the United States aimed at modernizing that country's financial services sector. With respect to the cross-border provision of services, Canada wishes to see a more level playing field in the securities sector. Under the NAFTA, Canada, Mexico and the United States are committed to revisiting this issue by the year 2000.

Telecommunications

The Federal Communications Commission (FCC) has adopted two orders to implement the U.S. commitment under the ABT, which entered into force on February 5, 1998. Under the Foreign Carrier Entry Order, carriers from WTO member countries, such as Canada, will be able to enter the U.S. market, or to own 100% indirectly

(and 20% directly) of a licensed U.S. carrier or a submarine cable owner, under the "rebuttable presumption" that their entry is in the public interest. The DISCO II (Domestic International Satellite Consolidation) order does the same for telecommunications satellite services. In both cases, the previous reciprocity-based "effective competitive opportunities" test has been removed, though foreign and trade policy will continue to be taken into consideration. Access to the United States market also depends on implementation of certain key provisions of the Telecommunications Act of 1996.

Canada will closely monitor implementation of the U.S. commitment to allow foreign suppliers to provide local, long distance and international telecommunications services, on a facilities or resale basis, in accordance with the multilaterally agreed regulatory principles.

Shipping

A number of maritime laws (collectively known as the "Jones Act") impose a variety of limits on foreign participation in the U.S. domestic maritime industry. Under these laws, the carriage of cargo or passengers between points in the United States is restricted to U.S.-built and U.S.-documented vessels owned and operated by U.S. citizens. Similar restrictions apply to dredging, salvage and other commercial marine activities in U.S. waters. In international shipping, there are limitations on foreign ownership of vessels eligible for documentation in the United States. In addition, several subsidies and other support measures are available to operators of U.S. vessels: cargo preference laws restrict the carriage of military cargo and limit the carriage of government non-military cargo, aid cargo and certain agricultural commodities to U.S. vessels. These and other restrictions (coupled with defence-related prohibitions of the Byrnes/Tollefson Amendment) limit Canadian participation in U.S. shipping activities.

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

Temporary Entry

Section 343 of the U.S. Illegal Immigration Reform and Immigrant Responsibility Act would require any alien seeking U.S. employment as a health care worker to present a certificate from a U.S. credentialing organization verifying the person's professional competency and proficiency in English. A waiver for health care workers seeking temporary entry is currently in effect pending development of implementing regulations. Canada

has registered concerns with the U.S. Administration and Congress that the certification requirement, as it applies to those seeking temporary entry, would violate U.S. NAFTA obligations. In response to Canadian concerns about the legislation, U.S. Trade Representative Barshefsky has stated that the United States will "work hard" to ensure that implementing regulations are NAFTA-consistent. Canada will continue to press this issue with the United States in order to achieve a satisfactory resolution.

GOVERNMENT PROCUREMENT

Canada will continue to press the U.S. government to further open its procurement markets to Canadian suppliers. Currently, U.S. government exceptions under NAFTA and WTO procurement agreements prevent Canadian suppliers from bidding on a broad range of government contracts in sectors of key importance. Especially onerous are the set-aside programs for small and minority-owned businesses and *Buy American* provisions.

Small Business Set-asides

The definition of a U.S. "small business" varies by industry, but is typically 500 employees in a manufacturing firm (and up to 1 500 employees in certain sectors) or an annual revenue of up to \$17 million for a services firm.

The Government is concerned that, over the past year, the United States has continued to expand the use of the exemptions to its procurement commitments in international trade agreements. The Small Business Reauthorization Act of 1997 (signed into law December 2, 1997) creates a new "set-aside," the "HUBzone" program, which is aimed at helping small businesses located in depressed areas to obtain federal contracts. Canada will examine the consistency of this new set-aside program with U.S. obligations under international agreements.

The 1997 legislation also increases, from 20% to 23%, the government-wide goal for awards to small, small disadvantaged and HUBzone businesses. This new goal is also being encouraged at the subcontractor level. The higher the set-aside goal, the more procurement business will be removed from full and open competition for Canadian firms.

Buy American

Buy American provisions are applied extensively to U.S. procurement that is not covered by the NAFTA or the WTO. The trade agreements only require equal treatment of Canadian offers on direct purchases by the U.S. federal government. There is no restriction on the conditions that the United States may place on funding it supplies to state and local governments.

Intermodal Surface Transportation Efficiency Act

Canada continues to seek improvements to the currently limited access that Canadian firms have into the important U.S. procurement market for transportation infrastructure contracts for federally funded transit, highway and aviation projects. Almost all of the large transportation contracts in the United States are administered by state and local government or private-sector organizations. Most receive federal funds. The Intermodal Surface Transportation Efficiency Act (ISTEA) generally requires that federal transportation infrastructure grants to state and local government make use of U.S. material and equipment. Congress is expected to reauthorize ISTEA in the spring of 1998. Similar conditions prevail for airports, deriving from the Airport and Airways Facilities Improvement Act.

Projects funded by the Federal Transit Administration require all steel and manufactured products to be 100% U.S. content and 100% U.S. manufactured. Rolling stock (i.e. trains, buses, ferries, trolley cars) components must be 60% U.S. content, and with final assembly occurring in the United States. Projects funded by the Federal Highway Administration require all iron and steel products, and their coatings, to be 100% U.S. manufactured. Projects funded by the Federal Aviation Administration (FAA) require all steel and manufactured products to be of 60% U.S. content, with final assembly in the United States.

State and Local Government Preferences

A wide variety of protectionist provisions are also applied to state and local government contracts.

Legislative and Regulatory Changes

The United States is still implementing changes made to its acquisition procedures arising from legislation passed in 1994 and 1995. Canada continues to press the United States to clarify and resolve potential inconsistencies between its NAFTA obligations and the new procedures, which appear to limit Canadian participation. These include subcontracting requirements, and simplified acquisition procedures for all procurement under \$100 000 and for commercial items to a value of US\$5 million.

STANDARDS-RELATED MEASURES

At the federal level, U.S. inclination to use mandatory standards to achieve regulatory objectives (e.g. the Fastener Quality Act; mandatory labelling standards for textile products; a proposal to require country-of-origin marking in the principal display panel for frozen vegetables - see below; and a recent proposal by the Department of Energy to regulate electricity reliability standards for North America) is of concern to Canada.

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

The NAFTA Committee for Standards-related Measures has four sectoral subcommittees focussing on automotive, land transportation, telecommunications and textile labelling issues. These also provide effective fora for bilateral co-operation in the area of standards and regulations. The land transportation and textile labelling subcommittees have made considerable progress on trade-facilitating harmonized standards in the areas of driver vehicle compliance for trucks and the care labelling of textile goods. In both, the telecommunications and automotive sectors, standards measures have been generally complementary, and the subcommittees are pursuing further bilateral co-operation, along with increased co-ordination of activities in international fora.

Canadian and U.S. agencies are co-operating closely to conclude mutual recognition agreements (MRAs) on testing and certification, as well as on the harmonization and joint development of regulations, where this can be of assistance to exporters. For example, the Standards Council of Canada is pursuing arrangements with appropriate U.S. agencies so that assessments for conformity with U.S. regulations on fasteners and the testing of drivers for substance abuse can be performed in Canada.

At the subfederal level, a variety of traditional jurisdictions that predate the arrival of cross-border trade often impede market access for Canadian exporters. Canada is seeking more complete implementation by the United States of its NAFTA and WTO subfederal commitments, with a view to the upgrading or modernization of U.S. subfederal standards measures, complementing the volume and variety of our trade in manufactured goods. Canada is also working to enhance bilateral dialogue at the provincial and state level to increase co-operative activities in the area of standards and regulations development.

Finally, Canada will continue to encourage co-operation with the United States in the development and use of industry-developed voluntary standards for the North American market as a substitute for national regulatory requirements.

Country of Origin Labelling Initiatives Congress is considering three country of origin labelling initiatives for imported food products: the Imported Meat Labelling Act; the Imported Produce Labelling Act; and, a bill to require that retail packages of frozen imported produce display the country of origin on the

front panel (current practice allows marking on the back of packages or elsewhere). Although the stated purpose is food safety and consumer information, the initiatives could adversely affect Canadian exports to the United States by introducing unnecessary obstacles to trade.

Canada has long protested U.S. Administration proposals to require front panel marking of frozen produce and the Administration has yet to move to implement such a requirement by regulation. Canada is continuing to object to the similar legislative action. The Government is assessing its position on the other two legislative initiatives and will register its views should the detailed provisions of the bills present adverse consequences for Canadian exports.

MEXICO

Overview

Canada-Mexico trade has increased steadily since Mexico implemented a sweeping series of economic reforms in the mid-1980s. Decades-old import barriers were abandoned, and policies of privatization have contributed to a significant restructuring of the economy. These gains have created unprecedented demand for various goods, services and technologies, and new possibilities for investment. In 1997, the total value of two-way merchandise trade was \$8.243 billion—a 13% increase over 1993, the last year before the NAFTA came into effect. In 1997, Mexico had a merchandise trade surplus with Canada of \$5.697 billion. There is strong evidence to suggest that the recorded value of Canada's exports to Mexico is significantly underestimated, perhaps by as much as 50%. For example, goods from Canada are re-exported through the United States and may not be measured as exports to Mexico. The respective statistical agencies of the three NAFTA countries are now working at "reconciling" their trade data.

Canadian exports have become steadily more diversified, with value-added manufactured products accounting for well over 50% of total Canadian exports to Mexico in 1997. Mexico is now Canada's fourteenth-largest export market and third-largest import source. Canada's accumulated FDI in Mexico was \$1.266 billion in 1996; however, announcements in 1997 of seven significant new investments are strong indications that Canadian direct investment in Mexico is rapidly taking off. During the first four months of 1997, Statistics Canada figures show that Canada ranked third in new FDI into Mexico.

With a record 91 commercial deals worth \$230 million, the January 1998 Team Canada trade mission to Mexico was an unqualified success, further evidence of the business potential that Mexico represents for Canada, particularly for the record number of small and medium-sized enterprises (SMEs) that participated in the mission. The official opening, during the Team Canada trade mission, of the Canadian Education Centre (CEC) Mexico, will help to develop the substantial opportunities that exist in Mexico for Canadian suppliers of education and training services.

To maximize trade promotion efforts, DFAIT has recently updated and published its *Mexico Trade Action Plan*. The document identifies five priority sectors that offer substantial opportunities in areas where demand is expected to develop over the medium term: advanced manufacturing technology and industrial machinery; IT and other advanced technology products and services; agriculture and agri-food; automotive maintenance equipment and after market parts; and oil and gas equipment and services.

Market-opening Results in 1997

In 1997, market-opening results were as follows:

- ! The completion, in July 1997, of the first round of accelerated tariff elimination among Canada, Mexico and the United States, on a number of key products.
- ! Measurable progress on an interim work plan and a preclearance program allowing the resumption of exports of certain classes of seed potatoes.
- ! Signature of a Memorandum of Understanding (MOU) in the Field of Telecommunications to serve as a basis for co-operation in this important area.
- ! A successful appeal by Canadian industry of one final anti-dumping determination by Mexico on Canadian hot-rolled sheet (duties were terminated).
- ! The completion of a procurement study that successfully underlined Canadian concerns regarding Mexico's compliance with bid-notification requirements.

Canada's Market Access Priorities for 1998

Over the coming year, Canada will:

- ! Complete a second round of accelerated tariff reductions on products of interest to the private sector.
- ! Make further progress on the harmonization and simplification of customs procedures.
- ! Renegotiate the current seed potato work plan and preclearance program to seek a less restrictive trade in seed potatoes.
- ! Seek to reduce delays in Mexico's phytosanitary authorization procedures governing imports of Canadian grains.
- ! Urge Mexico to honour its NAFTA trucking obligations and process a Canadian application to operate a cross-border trucking service into Mexico.
- ! Closely monitor Mexico's implementation of its WTO commitments under the WTO Agreement on Basic Telecommunications.

- ! Encourage Mexico to put in place telecommunications equipment and conformity assessment standards that conform to NAFTA requirements, and to clarify telecommunications service licensing provisions.
- ! Move forward with bilateral discussions to identify options toward the reform of anti-dumping measures.
- ! Urge Mexico to clarify its list of services excluded from the NAFTA government procurement chapter.

Canadian access to the Mexican market continues to improve and consolidate under the terms of the NAFTA. Prior to the NAFTA, more than 80% of Mexican exports to Canada entered duty-free, while most Canadian exports to Mexico faced MFN tariff rates of between 10% and 20%. Also, Canadian firms have been able to expand sales in sectors that were previously highly restricted, such as the automotive, financial services, and energy sectors. The elimination of Mexican import licensing requirements and the phasing out of almost all tariffs is helping to provide barrier-free access to a market of over 90 million consumers.

Bilateral trade irritants are being addressed in the various NAFTA working groups and committees. The Canadian government will continue to work on behalf of the Canadian private sector to improve access in a number of areas relating to goods, services and investment, as follows.

IMPROVING ACCESS FOR TRADE IN GOODS

Trade Remedies

The Canadian steel industry appealed two final anti-dumping determinations by SECOFI against imports of Canadian steel under NAFTA Chapter Nineteen dispute resolution provisions. In August 1997, as a result of the first NAFTA panel decision, anti-dumping duties were terminated on hot-rolled sheet from Canada. In December 1997, the second NAFTA panel remanded a number of issues in the dumping investigation on hot-rolled steel plate to Mexican authorities for reconsideration. On February 16, 1998, Mexican anti-dumping authorities (SECOFI) issued a re-determination of the duties. As a result, anti-dumping duties were significantly increased. The Panel has until May 18, 1998 to consider the re-determination. It is likely that the Canadian companies involved will challenge the SECOFI re-determination.

The reform of anti-dumping measures between Canada and Mexico consistent with Canada's NAFTA obligations, has been the subject of discussions between the two governments. To date, discussions have not proceeded beyond the preliminary stage.

NAFTA Accelerated Tariff Elimination

Virtually all tariffs between Canada and Mexico are being phased out and will be eliminated by 2003. The NAFTA provides for the accelerated elimination of tariffs where countries agree. In this industry-driven process, tariffs are eliminated based on support in the industry sector concerned. The first round involved elimination of tariffs on July 1, 1997 on a number of products, including spandex monofilaments, tahini and wooden venetian blinds. For the second round, Canada has pursued the accelerated elimination of tariffs on several products, including automotive glass, sardines, electronic door locks and certain textile yarns. Canada will continue to seek accelerated tariff elimination in response to private-sector interests, to further improve Canadian access to the Mexican market.

Customs

Although Canadian industry has not actively pressed concerns about Mexican customs administration, the Government is aware that, at times, the manner in which Mexican customs procedures are implemented impedes the timely delivery of Canadian goods. The Heads of Customs Conference, comprising representatives of the three NAFTA countries, meets regularly to discuss what improvements or changes would be required to streamline the cross-border commercial process. For example, the three Heads have recently endorsed the North American Trade Automation Prototype (NATAP), an effort to harmonize and simplify the data, documents and processes required to complete a trilateral customs transaction. Work is also under way to improve enforcement co-operation, temporary entry procedures, and entry requirements for courier shipments. Under Article 512 of the NAFTA, the parties have also agreed to co-operate and assist each other in the customs area: the Customs Subgroup, a formal trilateral body, identifies, reviews and recommends specific areas for improving the customs administration of the NAFTA.

Agricultural Products

Seed Potatoes

Technical issues threatened Canada's access to the Mexican market in 1997. In October, Canadian Food Inspection Agency officials and their Mexican counterparts reached agreement on an interim work plan, allowing access for certain classes of seed potatoes, which were, for the most part, of limited commercial importance. In January 1998, the two sides agreed on a preclearance program for the shipment of more commercially significant classes of seed potatoes. It is Canada's intention to renegotiate the current work plan and the preclearance program, prior to the next shipping season (i.e. fall 1998), to seek a less restrictive and more commercially viable work plan for trade in seed potatoes with Mexico.

Phytosanitary Authorization

At the November 1997 NAFTA Committee on Agricultural Trade, Canada raised concerns about Mexico's "phytosanitary authorization" permits, which are required for most grain imports. Mexico responded that these permits are necessary for grains because phytosanitary regulations have not yet been published. There are frequent delays in the issuance of these certificates, often as long as four to six weeks. Canada requested that Mexico replace the permit system with published phytosanitary import regulations for all grains. Mexico agreed to consider Canada's request. Canada will continue to press for resolution of this issue, both in the NAFTA Committee on Agricultural Trade and bilaterally.

IMPROVING ACCESS FOR TRADE IN SERVICES

Trucking

Canadian trucking companies are interested in the Mexican market. The NAFTA's trucking access provisions were to have come into effect in December 1995. However, the United States did not liberalize its measures because of various concerns, including Mexican truck safety standards. Consequently, Mexico has been unwilling to accept applications from Canadian or U.S. trucking companies for access to the Mexican border states. Following 18 months of discussion with Mexican transport officials, a Canadian trucking company formally submitted an application in January 1998 to operate to and from the Mexican border states. The Canadian government believes that the U.S.-Mexico trucking dispute should not impede fulfilment of Mexico's NAFTA trucking obligations to Canada. Canada will continue to press this issue with Mexico. More generally, substantial progress has been made in harmonizing technical standards for motor carriers under NAFTA Chapter Nine. Canadian transport officials will continue this work with their U.S. and Mexican counterparts, in anticipation of the early opening of the U.S.-Mexico border to trucking services.

Telecommunications

A number of Canadian telecommunications companies are doing business in Mexico. With the conclusion of the ABT at the WTO, access for the supply of services to Mexico has increased, offering more opportunities to Canadian businesses. Canada will closely monitor Mexico's implementation of its WTO commitments. In addition, Canada will continue to urge Mexico to put in place terminal attachment standards that conform to the NAFTA requirements, and to implement conformity-assessment procedures that would allow the acceptance of Canadian test data, as required under Articles 908 and 1304 of the NAFTA. Mexico has made encouraging commitments on both these fronts within the NAFTA Telecommunications Standards Subcommittee. There continues to be a problem, however, with licensing provisions associated with the different types of telecom service operators, due to the insufficient establishment of regulatory guidelines and licensing

requirements. Canada encourages Mexico to develop these, to allow Canadian companies to take full advantage of the opportunities available in providing telecom services in Mexico. During the January 1998 Team Canada mission to Mexico, Canada and Mexico renewed their co-operation in the field of telecommunications with the signing of an MOU in the Field of Telecommunications between Industry Canada and Mexico's Secretariat of Telecommunications and Transportation. Both countries have experienced rapid growth in this industry by sharing innovative technologies and by collaborating in the development of telecommunications policy and regulations, and wish to pursue co-operation in this dynamic and increasingly important area.

Financial Services

Mexico significantly liberalized its financial services sector as part of the NAFTA, prompting the Canadian financial services industry to increase its participation in the Mexican market. One area in which Canada is seeking further change in the Mexican regime, however, relates to limited-scope securities firms. While Mexico has no current plans to allow such firms, this may be considered in the medium term. Canada will, therefore, follow with interest Mexico's work in this regard, and will continue encouraging Mexico to establish new categories of securities firms. Canada will also follow the implementation of pension reform in Mexico. While banks will be allowed to undertake fund management, Canada has noted that foreign securities will not be permitted as part of a Mexican pension fund portfolio, and encourages Mexico to open this market to foreign securities.

GOVERNMENT PROCUREMENT

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

Mexican Services Exclusions List

Under NAFTA Chapter 10, Mexico is required to complete its list of services excluded from the NAFTA government procurement chapter by July 1995. Mexico has still not finalized its list. Until it does so, Canadian interests in the Mexican market are hindered by the lack of transparency in the Mexican services coverage. The Canadian government places a high priority on an early resolution of this important outstanding market access issue, and will continue to press Mexico to finalize its list.

PEMEX and CFE Set-asides

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

Bid Notification Periods

Chapter Ten obligates the NAFTA parties to publish procurement tenders in a transparent way, so that qualified suppliers from the NAFTA countries have sufficient time to submit bids. A study commissioned by the Canadian government has raised concerns about Mexico's compliance with the notification obligations. Mexico has undertaken to respond to Canada's recent enquiry respecting Mexico's compliance with the notification obligations.

INVESTMENT 6

Canadian industry has not encountered any particular obstacles to investing in Mexico. Except in certain clearly defined sectors in which Mexico limits or excludes foreign investment (of particular importance to Canada is investment in upstream oil and gas activities), Mexico does not restrict foreign investment in its economy. Through its Chapter Eleven investment provisions, the NAFTA has also provided greater security for Canadian investors in Mexico. In addition, the Mexican government's ambitious privatization and infrastructure upgrading program is creating new opportunities for Canadian businesses in sectors such as electrical generation, transportation (airports, railways, and ports), and natural gas transportation (pipelines) and distribution.

MERCOSUR

Overview

The Southern Cone Common Market (Mercosur), the customs union comprising Argentina, Brazil, Paraguay and Uruguay, is Canada's largest export market in Latin America. In 1997, Canada's goods exports to Mercosur totalled \$1.825 billion and total imports were \$1.613 billion. Canada's main exports to Mercosur are paper products, potash, wheat, telecommunications equipment, aircraft parts, petroleum products, machinery, malt, minerals, plastics, rolling stock and pharmaceuticals. Investments are concentrated in the aluminium, oil and gas, mining, power, telecommunications and spirits sectors.

Mercosur was officially created in 1991 through the Treaty of Asunción. When fully implemented in 2006, Mercosur will provide for the free circulation of goods and services, capital and labour, a common external tariff (CET), and harmonized macroeconomic and sectoral policies. Partially harmonized CETs were implemented in 1995 and already about 90% of all internal trade is duty-free. The exceptions to the CET, such as the automotive sector in Argentina and Brazil, and hundreds of individual tariff lines for each country, are to be eliminated by 2006. On services, the Mercosur Trade Ministers approved a framework in mid-December 1997, and detailed negotiations should be completed in 1998.

Since its inception, Mercosur has negotiated and entered into free trade agreements with Chile and Bolivia. Free trade talks are under way with the Andean Pact, which comprises Bolivia, Colombia, Ecuador, Peru and Venezuela, and a limited preferential trading arrangement is being finalized with Mexico. Mercosur has also reached an interim agreement with the EU, which is the first step toward full-fledged free trade negotiations slated to begin in 1999.

Canada's Market Access Priorities for 1998

Mercosur is Canada's biggest market in Latin America. It is the second-largest market in the hemisphere after NAFTA and, as such, is an important player in the FTAA process. Canada and the Mercosur countries have for some time held bilateral discussions regarding the FTAA and, based on this dialogue, they began in 1997 to explore ways to enhance bilateral trade and investment. In October 1997, Canada presented Mercosur with a proposal for a Trade and Investment Co-operation Arrangement (TICA). Mercosur agreed to the Canadian proposal in late 1997. We expect signature of this TICA in 1998. Once signed, the Arrangement will establish a framework for Canada and Mercosur to collaborate on FTAA, WTO and Cairns Group work programs; to create an advisory council of business representatives; to foster private-sector dialogue to facilitate trade and investment in both directions; and to result

in a joint assessment of barriers to trade and investment. It would also facilitate collaboration on customs matters, conformity-assessment procedures in specific sectors, and development of co-operative arrangements in the areas of labour and the environment.

Canada will continue to encourage Mercosur member countries to adhere to the Information Technology Agreement (ITA), which was concluded in the WTO in March 1997. Mercosur represents a major export market for Canadian manufacturers of IT products.

Canada is taking part in the WTO review of the Mercosur CET, currently being carried out under Article XXIV of the GATT governing customs unions and free trade areas. The review is aimed at ensuring the conformity of the Mercosur customs union with all relevant WTO obligations. It also concentrates on specific aspects such as the breaches of certain tariff bindings by individual Mercosur countries that occurred when the CET was implemented. The review process provides for compensation in certain situations, and Canada is pursuing this avenue with Mercosur.

As part of the examination of these breached tariff bindings, Canada is also reviewing the impact on Canadian exports of the temporary three percentage point tariff increases introduced by Mercosur countries at the end of 1997.

ARGENTINA

Pork

On September 30, 1997, the Canadian Food Inspection Agency (CFIA) and its Argentine counterpart signed a one-year veterinary pilot project, allowing for the export of fresh, chilled and frozen pork from Canada to Argentina, and the export of fresh, chilled and frozen beef from Argentina to Canada. Technical requirements in both countries had previously prevented trade in these products. The pilot project relates only to technical measures. Imports from Argentina are subject to Canada's beef tariff-rate quota.

Notwithstanding the signing of the pilot project, Argentine importers continued to experience difficulties in obtaining import permits for Canadian pork from Argentine authorities. The Canadian Embassy and the CFIA made several representations to Argentine authorities to rectify the situation. The problem now appears to be resolved as we understand that import permits are now being issued. The Canadian Embassy will provide appropriate assistance to Argentine importers of Canadian pork, if they experience further difficulties. Since the pilot project only lasts for one year, the CFIA plans to resume discussions with

Argentine authorities to reach agreement on a permanent arrangement.

Investment

Technical discussions on upgrading the existing FIPA between Canada and Argentina were initiated in January 1998. Canada's objective is to improve the existing agreement to provide additional stability and transparency to an already positive bilateral investment relationship. Canadian direct investment, estimated to reach US\$2 billion by the year 2000, remains the basis of Canada's commercial relationship with Argentina. Canada ranks as the third most important foreign investor in Argentina and is expected to stay in the top five until at least the year 2000. The main focus of this investment has been the oil and gas, mining and energy sectors.

BRAZIL

Increasing Protection for Canadian Investment

Brazil is one of Canada's highest-priority countries for negotiating a FIPA due to the significant levels and long history of Canadian investment in that country. Current Canadian direct investment in Brazil is valued at more than \$2.7 billion, and continues to grow at a high rate. Even before the recent constitutional changes, which opened Brazil to foreign investment in key areas of interest to Canada (telecommunications, mining and energy), and the extensive ongoing privatization program, Brazil was the recipient of more Canadian investment than most other South American countries combined.

During Prime Minister Chrétien's visit to Brazil with Team Canada in January 1998, the Brazilian government signed a Declaration of Intention to initiate the negotiation of a FIPA by June 1998.

Import Credit Restrictions

In 1997, Brazil introduced provisional measures requiring Brazilian importers to finance their purchases through domestic rather than foreign banks, thereby voiding the competitive disadvantage imposed on local producers by the high-interest rate policies of the Brazilian government. More specifically, the restrictions require that foreign exchange for imports that are financed up to 179 days must be purchased immediately upon clearing the goods through Brazilian customs, i.e. the 180-day credit is eliminated. For goods financed between 180 and 360 days, foreign exchange must be purchased six months before the loan matures. In other words, importers either pay cash on sight for imports, or secure greater than 360-day financing terms from the exporter. The provisional measures do not apply to shipments valued under US\$10 000 or to petroleum products. The Brazilian Central Bank has exempted from these measures its Mercosur partners, as well as Chile, Bolivia and signatories to the Latin

American Integration Association dispute resolution agreement. These regulations are being addressed under the auspices of the WTO, and Canada is monitoring developments to verify whether the Brazilian measure is consistent with the WTO.

Meat

Canadian meat exporters continue to express concern over Brazil's requirement for the validation of inspection certificates for meat products by the Brazilian embassy or consulates prior to export. From the industry's perspective, this requirement delays the export process, creates additional costs and undermines its competitiveness in the Brazilian market. Canada believes that the requirement is contrary to common international practice, unnecessary for the sanitary certification process, and therefore unnecessarily trade-restrictive. Canada has been making representations to Brazil pressing for the removal of this requirement. Canada raised the issue during the March 1997 Canada-Brazil Joint Economic and Trade Council consultations, and has made further diplomatic representations. Brazil has responded that the possibility of removing this requirement "is currently under evaluation." We will continue to press for the resolution of the issue.

Chicken/Poultry

Brazil does not allow the importation of Canadian products containing raw or cooked poultry meat on the grounds that Brazil has not yet reviewed Canada's meat-inspection system for poultry or approved Canadian establishments. This policy has hurt the business interests of several Canadian exporters. Canada has proposed that the two countries initiate negotiations on the mutual recognition of poultry-inspection procedures to facilitate the entry of food products containing poultry meat into the Brazilian market. Canada is currently waiting for a response from the Brazilian government.

Wheat TRQ

In late 1996, Brazil notified the WTO of its intention to withdraw a 750 000 tonne duty-free wheat TRQ from its market access schedule. As a principal supplier of wheat to the Brazilian market, Canada notified its intention to claim compensation for the withdrawal of this concession. Canada and Brazil have had a number of meetings to attempt to resolve this issue. However, Brazil has yet to formally recognize Canada's claim for compensation. Discussions are continuing. In this regard, the recently signed MOU on Agriculture with Brazil could assist in developing solutions.

Subsidies to Exports

Brazil's export subsidy program (PROEX) provides support to the Brazilian aircraft manufacturer, Embraer, for the export of regional jets. PROEX reduces the cost of financing the purchase

of an Embraer aircraft by 3.8 % (or around US\$2 million per 50-seat jet) through what are called "interest equalization" payments. Canada believes that PROEX is a prohibited subsidy under WTO rules, and is concerned about the negative impact that PROEX might have on exports of the Canadair Regional Jet and other regional aircraft to third markets. Canada and Brazil have held discussions over many months regarding support for exports of regional aircraft, both within the structure of WTO consultations and in less formal bilateral talks. In January, Prime Minister Chrétien and Brazilian President Cardoso appointed special envoys to find a solution to the dispute. The envoys will report to the Prime Minister and the President by early April.

CHILE

Overview

Over the past year, the Canada-Chile Free Trade Agreement (CCFTA) was ratified by both Canada and Chile, and came into force on July 5, 1997. On that date, tariffs were eliminated on the majority of products that make up Canada-Chile bilateral trade. For products on which tariffs are being gradually eliminated over the next few years, the second round of cuts was made on January 1, 1998.

The implementation of the CCFTA heralds a new era in bilateral co-operation with Chile, which has already expanded significantly in recent years. The total value of two-way trade in goods has more than doubled over the past five years, reaching \$691.5 million in 1997. Canada's exports of goods totalled \$366.7 million and imports reached \$324.8 million in 1997. Canada has become the second-largest foreign investor in Chile, with current and planned investments approaching \$8 billion. There is every indication that the CCFTA will spawn many new Canada-Chile business relationships and successes. This is evidenced by the overwhelming interest in Chile on the January 1998 Team Canada Mission to Latin America when some 66 business deals worth three-quarters of a billion dollars were signed.

At the first meeting of the CCFTA Commission in Santiago on January 21, 1998, Minister Marchi and Minister Insulza reaffirmed the two nations' commitment to implementing fully the provisions of the CCFTA which will promote enhanced trade and investment flows, and will contribute to stronger economic growth and the creation of new high-quality jobs in both economies. The signature on January 21, 1998 of the Convention on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, the first of Chile's new generation of tax treaties, meets one of the key commitments contained in the CCFTA. This Convention will facilitate the growth in trade and investment between Canada and Chile by establishing a more stable taxation framework for individuals and companies doing business in each other's country. As well, a comprehensive work program, comprising eight committees and working groups, has been launched to carry out the implementation of the major elements of the CCFTA. Significant progress has also been made in promoting co-operation on labour and environment issues under the two side agreements concluded in parallel with the CCFTA.

Looking towards the coming year, the Chilean government has indicated that it plans to liberalize its MFN tariff. Currently, Chile has a uniform tariff where all goods subject to the MFN rate are dutiable at 11%. The change would likely see the uniform MFN rate reduced from 11% to 8%. Although this may reduce the margin of preference enjoyed by Canadians under the CCFTA, in

some cases where the Chilean tariff is being gradually phased out under the CCFTA for Canadian goods, Chile has provided Canada with a written commitment to maintain a certain margin of preference if it does indeed reduce its MFN tariff. When the proposal moves forward, Canada will ensure that this commitment is fully honoured.

Taxes on Alcoholic Beverages

The European Union, United States, Canada and Peru contend that Chile maintains a tax regime which discriminates against imported alcoholic beverages. Canada is therefore participating in WTO dispute settlement proceedings to resolve the matter.

FREE TRADE AREA OF THE AMERICAS

The decision to create a Free Trade Area of the Americas was made by leaders of the 34 democratic countries of the hemisphere, when they met in Miami for the first Summit of the Americas in December 1994. In their "Declaration of Principles," leaders resolved to conclude the FTAA negotiations no later than 2005 and to make concrete progress toward achieving that goal by the end of the century. Trade Ministers were entrusted with the preparations.

Since the Miami Summit, FTAA Trade Ministers have met three times, in Denver (June 1995), in Cartagena, Colombia (March 1996) and in Belo Horizonte, Brazil (May 1997). Their fourth meeting is scheduled for March 1998 in San José, Costa Rica.

At Denver and Cartagena, Trade Ministers agreed that the FTAA should be fully consistent with the WTO; should maximize market openness through high-level disciplines built on existing agreements; should be balanced and comprehensive in scope; and should represent a single undertaking comprising mutual rights and obligations.

In the lead-up to the Belo Horizonte meeting in May 1997, Canada worked closely with FTAA counterparts to ensure progress. Canada's main goals for the meeting were met. At Belo Horizonte, Ministers decided that leaders should formally initiate FTAA negotiations at the second Summit of the Americas in Santiago, Chile, now scheduled for April 1998. To this end, Trade Ministers declared that, at their fourth ministerial meeting in San José, they would formulate how the FTAA talks would proceed, including such features as the objectives, approach, structure and venue for the negotiations. Ministers also decided at Belo Horizonte that countries may negotiate the FTAA individually or as members of a subregional preferential trading arrangement; that the FTAA should co-exist with—not replace—hemispheric subregional agreements such as the NAFTA; and that a temporary administrative secretariat would be established to support the negotiations.

These decisions, specified in the Belo Horizonte Joint Declaration, reflect Canadian priorities related to the timing and nature of the negotiations and the ensuing agreement.

In preparation for the Costa Rican ministerial meeting in March 1998, Canada made several proposals related to the possible structure of the FTAA negotiations. Canada's objective was to ensure that the decision taken with respect to the FTAA negotiating structure would reflect the principles and objectives of sound management, efficiency, flexibility and comprehensiveness of the negotiations. Canada also worked to ensure greater transparency in the preparatory process, including input by the private sector, labour groups and other members of the public.

Canada's goal for the FTAA at the Santiago Summit of the Americas is to see the FTAA officially launched, as planned, with the start-up of detailed negotiations to follow soon after. Many FTAA countries have indicated a reluctance to launch the negotiations if the U.S. administration does not have fast-track negotiating authority in time for the Santiago meeting. While the approval of fast-track would send a positive signal of U.S. potential commitment to hemispheric free trade, it is not a technical requirement for negotiations to begin. Accordingly, Canada is on record as supporting the launch of FTAA negotiations at Santiago, regardless of whether the U.S. administration has received fast-track negotiating authority from Congress.

5. OPENING DOORS TO ASIA PACIFIC

Over the last three decades, the East Asian economies have been a very dynamic region of the world, with strong GDP growth, relatively low inflation and sound fiscal finances, and high inflows of foreign capital. In recent years, imbalances began to emerge. In particular, it became evident that the financial systems were underdeveloped, and unable to intermediate properly the large capital inflows and the rapid expansion of domestic credit. As a result, funds were not always channelled to the most profitable ventures and the quality of bank loan portfolios deteriorated. The relatively inflexible exchange rate regimes led to a deterioration in the competitiveness of East Asian exports, particularly as the U.S. dollar rose vis-à-vis the Japanese yen.

In the second half of 1997, a number of Asian economies including Thailand, Malaysia, the Philippines, South Korea and Indonesia, experienced a sharp downward correction of the value of their currencies as well as a fall of asset prices. This led the governments of Thailand, Indonesia, and Korea to seek assistance from the IMF, the World Bank, the Asian Development Bank and

bilateral donors, and to implement reform programs to address the root causes of their problems.

The turmoil in Asia will likely have only a limited impact on Canada's overall economic growth. The crisis will have some effect on reducing Canadian exports to the region, and Canada's tourism industry will also be somewhat affected by the loss of wealth in Asia and the lower purchasing power of Asian currencies. In addition, lower-priced Asian exports may displace Canadian exports to third country markets. Canadian exports may also be reduced to the extent that the crisis slows growth in the United States (our largest trading partner). The direct impacts on Canadian exports, however, can be expected to be moderate, as exports to the region account for only about 8 percent of total sales abroad. The indirect effects of slower growth in Asia are potentially more significant. Commodity prices have fallen across a broad front, partly in anticipation of economic slowing in Asia and partly due to other factors. Western provinces, in particular British Columbia, with over a third of its exports going to Asia, will be the most affected.

While the Asian economies are likely to experience slower growth over the next few years, it would appear that if necessary reforms are implemented, the long term growth prospects should be bright and conducive to robust demand for Canadian exports of goods and services in Asia.

APEC

Overview

The APEC forum was established in 1989 to foster economic co-operation on the Pacific Rim. It currently has 18 members: Australia; Brunei; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; the Philippines; Singapore; Chinese Taipei (Taiwan); Thailand; and the United States. Peru, the Russian Federation and Vietnam will be admitted in November 1998.

Canada chaired APEC in 1997, and hosted the annual Ministerial and Leaders' meeting in Vancouver in November. One of Canada's priorities throughout the year was to pursue initiatives to enhance access to key markets for traders and investors, particularly the "early voluntary sectoral liberalization" process. APEC addresses market access issues via voluntary, individual and collective liberalization initiatives, and through trade and investment facilitation projects that aim to reduce the cost of doing business in the region.

Early Voluntary Sectoral Liberalization

In November 1997, APEC Leaders and Ministers announced an unprecedented commitment to pursue trade liberalization in 15 sectors. In 1995, the total value of APEC members' imports of affected products exceeded \$1 trillion. Ministers agreed to develop appropriate agreements or arrangements for nine of these sectors, and called for details to be finalized in the first half of 1998, with a view to implementing trade liberalizing measures in 1999, wherever possible. The nine sectors on this "A+" list are:

- chemicals
- environmental goods and services
- forest products
- medical equipment and instruments
- toys
- energy sector
- fish and fish products
- gems and jewellery
- telecommunications

For the remaining six sectors—automotive, civil aircraft, fertilizers, food, natural and synthetic rubber, oilseeds and oilseed products—APEC Ministers agreed in Vancouver to undertake further preparatory work throughout 1998.

The Government succeeded in including several sectors of major Canadian export interest, e.g. fish, forest products and oilseeds, in the list agreed at Vancouver. Throughout 1998, Canada will work with its APEC partners to develop high-quality agreements or arrangements that benefit Canadian exporters in each of the nine "A+" sectors and advance Canada's export interests in work on the other six.

At Vancouver, APEC Ministers underlined their desire to build on APEC's early voluntary sectoral liberalization as a basis for extending participation beyond the region and, where appropriate, for incorporation into the WTO. Given the size of the APEC market, the strong commitment on the part of APEC members to pursue sectoral liberalization will be a significant catalyst for further multilateral liberalization in the context of the WTO. Canada attaches considerable importance to the leadership role that APEC exerts in this regard. Finally, coming at a time when much of the region was rocked by the financial crisis, the announcement at Vancouver was a strong affirmation of the important benefits to all economies of pursuing freer trade, rather than turning inward.

Trade Facilitation

APEC endeavours to work with business to identify obstacles to trade and investment, and to co-operate to develop practical means of reducing or removing them. An APEC study completed last year indicates that current commitments by member economies to facilitate intra-APEC trade will have an even larger impact on

reducing costs and increasing GDP than will existing liberalization commitments.

In 1997, Canada, as host of the APEC process, focussed on advancing the trade-facilitation agenda. This ongoing work will continue to make regional trade easier and less costly, will improve the predictability of the business environment, and will generate opportunities for networking and partnerships.

Canada was at the forefront of APEC's efforts in 1997 to develop a contribution to the WTO on transparency in government procurement. This contribution should have a positive impact on the WTO's work on transparency and will demonstrate where it is possible to find agreement on this issue.

In 1997, APEC produced *A Blueprint for APEC Customs Modernization: Working with Business for a Faster, Better Border*; published a handbook of best practices related to customs laws, regulations, administrative regulations and rulings, and a *Compendium of Rules of Origin*; launched the Tariff Database on the Internet; produced a *Guide to Arbitration and Dispute Resolution* in member economies; developed non-binding principles for transparency in government procurement; developed model MRAs for automotive products, road-vehicle standards, and conformity assessments of food and food products; and agreed to develop an MRA on electrical and electronic equipment (safety) standards.

In 1998, Canada plans to advance work in all of these areas, as well as to push member economies to provide access for Canadian business persons that is on par with that provided by Canada to foreign business persons.

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

JAPAN

	Goods (1997)	Services (1997)
Exports	\$10.886 billion	\$1.495 billion
Imports	\$12.508 billion	\$1.343 billion

Rank: 2 (3.67% of total Canadian goods exports)

Overview

Japan is Canada's second-largest national trading partner after the United States and the third-largest foreign direct investor

in Canada (after the United States and the United Kingdom). Canada is Japan's thirteenth-largest trading partner, and its leading supplier of a number of key commodities and products such as coal, canola seed, lumber and prefabricated housing. Canada is also becoming an increasingly important source of a range of sophisticated, high-tech products for Japan. Japan is also a major source of portfolio investment in Canada.

In 1997, Canada's total merchandise trade with Japan surpassed \$23 billion, with exports of \$10.9 billion and imports of \$12.5 billion. The composition of Canada's trade with Japan continues to evolve in response to changing economic conditions in both countries. Despite continued weak economic growth, Japan's demand for cost-competitive imports continues to grow strongly. Based on Japan Tariff Association statistics, Japan's total demand for imports (valued in yen) increased by 8% in the first eleven months of 1997 as compared to the same period in 1996.

Through *Canada's Action Plan for Japan*, business and all levels of government are co-operating to exploit new export opportunities in six high-growth sectors: agri-food and fisheries; tourism; information technology; consumer products (furniture, sporting goods and giftware); building products; and health care/medical devices. The 1998 edition of the *Action Plan* was released in February 1998. It draws attention to new opportunities that have been created in the Japanese market through continuing structural economic change, deregulation and changing consumer tastes. It seeks to alert Canadian industry to changing market conditions in Japan and to encourage product adaptation.

Under the 1976 *Framework for Economic Co-operation*, Canada and Japan continue to promote the development of trade and the expansion of economic co-operation through mechanisms such as the annual meetings of the Joint Economic Committee (JEC). During Prime Minister Chrétien's visit to Tokyo in November 1996, a new *Canada-Japan Agenda for Co-operation* was announced, which reaffirmed a common commitment to facilitate the expansion of trade and investment through measures designed to improve transparency and market access. This co-operation was advanced further during Prime Minister Hashimoto's visit to Canada in November 1997.

Market-opening Results in 1997

To expand market opportunities for Canadian exporters, Canada has actively supported the Japanese government's efforts to stimulate the Japanese economy through deregulation, strengthened competition policy and further market liberalization. Given this dynamic environment, in 1997 Canada and Japan successfully addressed a series of issues of long-standing concern to Canadian business:

- ! Canada, along with the United States and the European Union, concluded negotiations with Japan in settlement of its obligations stemming from the findings of the WTO panel on Japan's liquor-tax regime. However, the required tax changes will not be fully implemented until October 2001. Since this timing bends WTO rules, which normally require implementation within 15 months of the panel result, Japan is paying compensation. By April 2002, it will reduce tariff rates to zero on all distilled spirits products, including Canadian whisky.
- ! The National Research Council's Canadian Construction Materials Centre (CCMC) signed liaison agreements with the Japanese Ministry of Construction's Building Centre of Japan, as well as with Japan's Centre for Better Living, entitling CCMC to provide technical data for the assessment of building products, as well as to participate in the evaluation and development of new standards.
- ! Japan agreed to a Canadian request to develop a new standard to expand the use of Canadian softwood concrete-form plywood in Japan (JAS 932).
- ! Construction of three-storey multi-unit wooden buildings was prohibited in semi-fire-rated zones, until the Ministry of Construction announced an easing of building restrictions in August 1997.
- ! Japan has agreed to recognize the higher stress-value capabilities of Northern Hemlock and Douglas Fir (Canadian lumber species), allowing for their use in a wider range of applications.
- ! Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) formally approved the results of a Canadian hay-fumigation test, allowing for baled hay that is fumigated in Canada to enter Japan without the need for further inspection on arrival.
- ! Japan approved the importation of three varieties of transgenic canola for environmental, food and feed safety in 1996, and has just recently decided to extend the approval to conventionally derived progeny of approved transgenic lines.
- ! Canada and Japan reached an agreement in principle on revisions to the Canada-Japan Double Taxation Convention. This revision, among other things, will allow for the mutual exemption of local taxes on international transport operations.

Canada's Market Access Priorities for 1998

Japan's tariff barriers have been steadily reduced through successive rounds of multilateral trade negotiations. In 1997, over 70% of Canadian exports entered Japan duty-free. However, even with full implementation of the tariff reductions achieved in the Uruguay Round, high average tariff rates continue to be applied to many Canadian exports, particularly agri-food products. Canada continues to seek the elimination of duties applied to oilseed products, processed foods, spruce-pine-fir (SPF) lumber and softwood plywood, red meats, fish and non-ferrous metals. At the same time, Canada is continuing to seek the elimination of specific technical and regulatory barriers in Japan to facilitate Canadian exports in priority sectors such as agri-food and building products.

IMPROVING ACCESS FOR TRADE IN GOODS

Agri-food, Fish and Beverage Products

Japan is the world's largest net-import market for agri-food, fish and beverage products, and is Canada's second-largest market for agri-food exports after the United States. In 1997, agri-food and fish exports exceeded \$2.8 billion. However, as outlined below, the use of safeguard measures, some specific tariffs, and the applications of food-safety regulations remain matters of concern.

Safeguard Measures on Chilled and Frozen Pork

Canada is concerned about the administration of Japanese safeguard measures on pork (in the form of an increased minimum import price and higher tariffs). The safeguard measures are designed to restrain growth in chilled and frozen pork imports. Since they were first triggered in 1995, the safeguards have been a significant complaint of the Canadian pork sector. As currently administered, these measures are causing considerable uncertainty for Canadian suppliers. On February 17, 1997, Canada joined Article XXII consultations with the EU and Japan on this issue in the WTO. Canada's objective is to ensure that any solution being considered by the EU and Japan does not disadvantage Canadian exporters. It is likely that discussions among the EU, the United States and Canada will continue to find a solution that will meet both Japan's and exporters' interests in eliminating the negative market impacts of the safeguard. In 1997, Canadian exports of fresh and frozen pork cuts were valued at \$337 million.

Tariffs on Canola Oil

Japan maintains high specific duties, currently between 15% and 20% on an *ad valorem* basis, on most cooking oils (except olive oil) to provide protection to its domestic crushing industry. These duties not only limit imports of crude and refined cooking oils, but also confer a competitive advantage on Japanese crushers that are buying oilseeds in the global market. Canada

will continue to press Japan to reduce its specific duties on crude and refined canola oil in the context of an overall multilateral zero-for-zero negotiation on all oilseeds. Japan maintains that the tariffs are not a significant impediment to imports, and that they will not be reduced beyond its Uruguay Round commitments. By April 1, 2000, the tariffs on crude and refined canola oil will fall to ¥10.9 per kilogram and ¥13.2 per kilogram respectively.

Tariffs on Feed Peas

Canada is interested in exporting feed peas to Japan for use as a protein source in livestock feeds. Japan considers that imported peas compete with domestic peas intended for human consumption. The existing tariff structure does not differentiate between food-grade peas for human consumption and feed peas for use in livestock feeds. Peas are currently imported under a tariff rate of 10%. Because of this tariff, feed peas are not competitive with other protein sources (e.g. canola and soybean meals, and dehydrated alfalfa) that enter duty-free. In addition, there is a TRQ on all dried leguminous vegetables, which includes feed peas and numerous dried food products. This also restricts access, since the TRQ tends to be filled by the higher-value product. Canada has asked Japan to amend its tariff structure to distinguish feed peas from food-grade peas.

Tariffs on Processed Foods

Japan maintains high tariffs on several processed-food products of concern to Canada. These products include mustard flour, frozen pizza and maple syrup. Canada continues to seek the elimination of tariffs on these products.

Variety-specific Testing of Imported Fruits and Vegetables

Japan requires that fruits and vegetables (such as apples and tomatoes) be approved for importation on a variety-specific basis. The scientific basis for such an approach is questionable. Variety-specific testing is not only expensive, but also delays the introduction of new varieties into the marketplace, as they are developed. This is particularly problematic for commercially grown tomatoes, as new and improved varieties are constantly being developed for commercial use. For example, after seven years of bilateral discussion and testing, Japan removed the ban on imports of seven varieties of Canadian tomatoes in September 1996. Of these seven varieties, only one is currently in commercial production. Canada has asked Japan to eliminate this requirement for new tomato varieties.

Japan's Food Sanitation Law

Japan's Food Sanitation Law (FSL) and its related administrative guidelines do not clearly distinguish between "sanitary" and "quality" problems affecting food products. Quality factors do not constitute health and safety risks, and should not, in

Canada's view, be addressed in the same manner as sanitary factors. This problem led Japan to ban the sale of 13 brands of Canadian bottled water in 1995, causing significant damage to Canadian trade interests. Canada believes that Japan should refrain from its current practice of prohibiting the sale of agri-food products based solely on its assessment of undesirable non-health and safety "quality" factors.

The FSL also maintains standards for frozen foods that are much more restrictive than those for non-frozen products. This has led to problems at some ports for frozen-food shipments from Canada. Canada does not believe that this distinction is scientifically justified. Problems have also been encountered with testing methodologies employed to ensure compliance with the FSL. Canada hopes to address this issue through a structured technical dialogue between officials.

Inspection of Baled Hay

To enter Japan, Canadian hay is rigorously inspected on arrival and certified as free of wheat and barley straw, and agropyron plants, that are host to the Hessian fly. Since 1987, Canada and Japan have been discussing a protocol that would establish fumigation or heat-treatment procedures in Canada for baled-hay imports, eliminating the need for inspection on arrival. Japan's approval of the fumigation treatment became effective on December 19, 1997.

Canadian industry remains interested in pursuing a heat-treatment protocol with Japan. Canada will reevaluate the research conducted for heat treatment and will approach Japan early in 1998 to propose further research.

Establishment of Maximum Residue Levels at Internationally Accepted Levels

In Japan, Maximum Residue Levels (MRLs) in foods are gradually being established for agricultural chemicals and veterinary drugs. In cases of chemicals or drugs in which no MRL has been established in Japan, zero tolerance is the default level. Canada urges Japan to accelerate its work to establish relevant MRL standards for veterinary drugs and agricultural chemicals that are consistent with international standards established by *Codex Alimentarius*. In the absence of a national MRL, Canada would welcome a decision by Japan to make use of the relevant international standards as the basis for access, until a final determination is made.

"Organic" Trademark

The Japanese Patent Office has approved the use of the word "organic" in the product name of alcoholic beverages produced by one Japanese company. In a letter to the Patent Office, the Canadian embassy argued that "organic" is a generic term that is

widely used and an internationally recognized method of production, and therefore should not qualify for registration by any one company. The Patent Office replied that there is a formal procedure available to affected companies to challenge decisions. This case is causing quantifiable damage to Canadian export interests in Japan.

Live Oyster Exports

The Canadian Food Inspection Agency (CFIA), in response to a specific request from oyster producers in British Columbia, has recently expressed an interest in pursuing an agreement to permit the export of live oysters to Japan. Japan has concluded such agreements with several American states, e.g. Oregon, Washington and Connecticut. CFIA met with the Japanese Ministry of Health and Welfare (MHW) in October 1997 to discuss a protocol to allow Canadian exports of live oysters to Japan. MHW is considering sending a fisheries inspector to Canada in 1998 to review fresh oysters from British Columbia.

Acceptance of Transgenic Canola

Canola seed is Canada's largest agricultural export to Japan, with shipments in 1997 valued at \$860 million. Transgenic technology refers to the introduction of a new trait such as tolerance to specific herbicides through the insertion of a gene from another species into the canola plant. The new varieties are subject to approval by Japan on the basis of environmental, food and feed-safety guidelines. Japan approved the importation of three varieties of transgenic canola for environmental safety in May 1996, and for food safety and feed safety in September 1996, and has just recently decided to extend the approval to conventionally derived progeny of approved transgenic lines. The Japanese system of approval remains a concern. It is likely that this system could pose delays in the acceptance of subsequent transgenic crops, whether they be canola with new transgenic traits or transgenic traits in other crop species. The situation could again arise, where crop varieties are approved for planting in Canada, before they are accepted by Japan. Canada believes that approval on the basis of genetic traits, rather than on varieties, would be more effective and efficient.

Building Products and Housing

Japan is Canada's second-largest market for building products after the United States, with 1997 exports exceeding \$2.5 billion. Canada continues to be the largest exporter of prefabricated housing to Japan, with sales in 1997 of \$179 million. Canada and Japan have agreed, under the terms of the October 31, 1994, Joint Announcement on Co-operation for Mutual Recognition in the Field of Building Standards between the Japanese Ministry of Construction and Industry Canada, to co-operate closely to reduce housing-construction costs in Japan

through regulatory reform, and mutual recognition of standards and test data for building products and construction methods.

Under Japan's Emergency Priority Program for Reducing Housing Construction Costs (announced in March 1996), Japan is now preparing revisions to the Building Standards' Law and Notification 56 (the 2x4 Building Code) to adopt performance-based (rather than prescriptive) building standards. Comprehensive deregulation in the housing sector and further liberalization with respect to imported building products have the potential to cut costs and to stimulate investment significantly in this key sector, to the benefit of Canadian suppliers of wooden building products. Canada will continue to consult bilaterally with Japan on the revision of the Building Code in 1998 to facilitate Canadian exports of building materials.

Tariffs on Wooden Building Products

Japan's system of tariff classification distinguishes between species and dimension lumber, regardless of the end use. Current tariff rates on certain species of lumber used in the housing industry serve to significantly increase overall costs of wooden housing. This is particularly true of tariffs applied to SPF dimension lumber. Hemlock (or Hem-Fir), Douglas Fir, Sitka Spruce, Yellow Cedar and Red Cedar enter tariff-free, while SPF and Larch are subject to duties ranging from 4.8% to 6.5%. SPF exports were worth more than \$600 million in 1997 out of \$2.25 billion in total softwood lumber exports to Japan. Canada is the dominant exporter of softwood lumber to Japan, and the SPF tariff continues to significantly affect the cost of structural lumber, thereby increasing the cost of housing in Japan.

Current tariff rates on softwood plywood, oriented-strand board, laminated lumber and other board products serve to significantly increase overall wooden housing costs and should be eliminated. Canada will continue to lobby on a bilateral basis in 1998 for their elimination.

Fire Restrictions on Three-storey Multi-unit Wooden Housing

Construction of three-storey multi-unit wooden buildings was prohibited in semi-fire-rated zones (which cover much of Japan's urban residential areas) until the Ministry of Construction (MOC) announced an easing of building restrictions in August 1997. While no longer prohibited, construction is still subject to approval under Section 38 of the Building Standards Law, which completely prohibits four-storey wooden housing even in non-fire-rated zones. A successful burn test of a three-storey structure was conducted in March 1996. Based on the results of that test, the MOC has indicated that standards for three-storey multi-unit structures (for both residential and commercial use) will be revised in the context of the overall revision of the Japanese

Building Standards Law, which will take effect in July 1999. Canada welcomes this revision, and is urging the MOC to consider the complete removal of the Section 38 provision.

Registered Grading Organizations

No foreign organization is permitted to administer a program of certification and quality control under the Japan Agricultural Standards (JAS) Law. Certification of competent Canadian organizations as Registered Grading Organizations (RGOs) would significantly reduce the cost of JAS compliance for Canadian producers. A systematic review of the JAS system in co-operation with interested foreign parties would make JAS a more efficient certification process. Canada's Council of Forest Industries (COFI), as a JAS-accredited Foreign Testing Organization, has expressed interest in receiving designation as an RGO, however, Japan continues to reject this request.

Revision of Structural Lumber Standard

The revision and development of JAS for imported wooden building materials has proven to be a slow and costly process. Canada is currently co-operating with Japan's MAFF to revise a number of standards, including JAS 143 (structural lumber), to facilitate imports into Japan of Canadian wooden building products. Japan has agreed to co-operate with Canada to revise its knot interpretation on JAS 143. Canada maintains that knots should be evaluated primarily on the basis of the impact that they have on structural strength, not just the simple size of the knot on the surface. Canada is asking for consideration of "knot displacement," as is the case for 2x4 lumber.

In addition, Canada has been seeking the inclusion of a laminae standard within the framework of the JAS 143 revision, so that Japanese laminators can source JAS-certified laminae and avoid costly regrading before laminating in Japan. Since March 1995, expert-level discussions involving Canadian technical experts have taken place, resulting in a JAS 143 revision committee. Canada is pleased with the formation of the JAS 143 revision committee, and will urge that knot displacement and a laminae standard be considered at the time of revision.

Horizontal Application Plywood

Notification 56 of Japan's Building Standards Law currently requires blocking for horizontal application of structural plywood in 2x4 construction. This forces builders to use blocking or, more commonly, to waste up to 25% of the plywood panel, without any significant gains in structural performance. Acceptance of horizontal application plywood without blocking would reduce plywood waste and construction times. Canada has requested an amendment of Notification 56 of Japan's Building Standards' Law to assign a shear wall factor for horizontally

applied plywood without blocking. Technical discussions between Canada and Japan continue.

Telecommunications Equipment

Since 1986, Canada and Japan have agreed to mutual recognition of each other's testing for certification in each country for wired telecommunications equipment. Additional measures are needed, however, to facilitate and reduce the high cost of certification for interfacing equipment for both wired and especially wireless networks. A proposal to discuss mutual recognition of these testing and certification procedures was made to the Japanese Ministry of Posts and Telecommunications (MPT) in January 1997. Canada's desired outcome is to implement MRAs for both wired and wireless equipment that are balanced and transparent. Canada has provided technical information to the MPT as a basis for further discussion.

In December 1997, following representations by Canada and other governments, the Radio Equipment Inspection and Certification Institute (known by the Japanese initials MKK) announced that the processing period for certification requests would be cut in half, and the rates it charges for certification would be dramatically reduced by up to 35%, with an eventual target of one third of the previous rates.

IMPROVING ACCESS FOR TRADE IN SERVICES

Financial Services

In late 1996, the Japanese government announced Tokyo's version of a financial market "Big Bang" to be implemented between 1997 and 2001. With the implementation of the revised Foreign Exchange Trade and Control Act, the changes to the Anti-monopoly Act, which will allow financial holding companies and the establishment of the new Financial Supervision Agency in July, 1998, will be a key year in the Japanese financial market-liberalization process known as the "Tokyo Big Bang." Foreign financial institutions are making considerable headway in Japan in areas as diverse as asset and pension management, equity sales and insurance. Several Canadian financial institutions have also upgraded their Tokyo operations to take advantage of opportunities being created by the Japanese financial deregulation process. The Canadian government and Canadian financial companies will continue to follow with interest the restructuring of the Japanese financial sector, and the opportunities that arise with the implementation of bilateral and multilateral financial-services negotiations.

Telecommunications Services

Japan is implementing significant steps to deregulate its telecommunications services market. In line with the Agreement on Basic Telecommunications (ABT), Japan has taken steps to permit

foreign access for the supply of all basic telecommunications services. Foreign investment in new companies is unrestricted. Foreign investment in NTT and KDD is still limited to 20%, but the limit on KDD will be removed with the abolition of the KDD Law in the summer of 1998. Domestic and international simple resale, and Internet telephony, are now permitted, and new rules for interconnection will likely become law by the middle of 1998. This will provide more opportunities and competition for Canadian telecommunications equipment and service providers. However, the ability of companies to interconnect at reasonable cost to publicly switched networks will be critical for effective market liberalization. Canada will continue to monitor developments in this sector, and to promote new opportunities for Canadian telecommunications equipment and services providers.

INVESTMENT

Investment in several of Japan's domestic economic sectors is subject to prior notification under the Foreign Exchange and Foreign Trade Control Law. Reserved sectors under the OECD Capital Liberalization Code include agriculture, forestry and fisheries, oil, leather and leather products, air transport and maritime transport. In addition, many other areas are reserved on national security grounds, including the aircraft and aerospace industries, armaments, passenger transport, nuclear power, electricity, gas, heat supply and waterworks. Given the importance of direct investment to trade, Canada will continue to support regulatory changes in Japan that improve the investment climate and facilitate market entry.

CHINA AND HONG KONG

CHINA

Overview

The People's Republic of China is Canada's fifth-largest export market, and Canada's third-largest, if the Hong Kong Special Administrative Region (HKSAR) is included. Market access issues for China are quite distinct from those for the HKSAR. In 1997, Canada's total exports of goods to China and Hong Kong reached \$3.78 billion, and the total value of imports of goods was \$7.55 billion.

With nearly one quarter of the world's population, China shows great promise of becoming the world's largest consumer market. It is estimated that, by 2010, there will be in excess of 500 million middle-class consumers in China. An increasingly Western lifestyle among the urban middle class, along with a moderating of the Chinese government's isolationist policies, make this enormous market seem all the more attractive from a Canadian perspective. Moreover, it is important to keep in mind that China consists of a number of distinct regional markets, each operating and evolving in a distinct and often autonomous fashion.

As outlined in the 1998 *China and Hong Kong Trade Action Plan*, Canada's policy approach takes full account of the reality of China's rapidly growing importance in world affairs. Canada considers an economic partnership with China to be a key element supporting long-term relations and encouraging further integration in global and regional political and economic institutions.

Despite the opportunities that China presents, there are a number of significant systemic problems and practices that impede Canadian access to the Chinese market. These issues are currently being addressed in the multilateral and bilateral negotiations on China's accession to the WTO, and Chinese officials have indicated that China is serious about resolving these issues as part of the accession package. These include high import tariffs, inappropriate standards, investment barriers, the ability to appeal rulings by Chinese officials through a judicial review process; equivalent treatment of foreign and domestic firms (national treatment); equivalent treatment of imports from different countries (MFN status); access to foreign exchange; the transparency of the Chinese regime; the uniform application of laws and regulations throughout China; non-tariff barriers (e.g. import licences and quotas); and the subsidization of Chinese manufacturers. As part of its accession to the WTO, China is

negotiating bilaterally with its key trading partners, including Canada, and the results will be applied on an MFN basis.

High tariffs on imports are one of the principal impediments to Canadian exports, particularly those that compete against domestically produced goods and those that, as commodities, have a fixed world price. Particular attention is also being given to knowledge-based products that are disproportionate generators of jobs and growth. In addition, high tariffs in a number of agricultural products, combined with gaps in the effective administration of customs, have led to widespread smuggling, which undermines the ability of Canadian producers to compete on an equal footing. This has had a particularly heavy impact on Canadian ginseng sales to China.

A common problem with the Chinese market is a lack of transparency and the inconsistent application of laws, regulations and import practices. This reflects, in part, the decentralized nature of administration in China, and the strength of local centres of power, whose administrative units can often act independently of central commands and of written laws endorsed by the central authorities. In customs procedures, for example, it is not uncommon for the same product to be subject to different levies in different ports, as each has its own administrative and other fees to add to the basic import tariff. This makes for uncertainty in the calculation of export costs and impedes the establishment of consistent, long-term commercial ties. In the case of capital projects, the approval process is often unclear, as is the ultimate decision-making authority on any particular project.

Another key issue is the application of standards, as there are continuing concerns that standards and, in particular, requirements for statutory inspection are being used as impediments to market access, and are not being imposed, as is required by the WTO, in the least trade-restrictive manner possible. Canada, in the context of discussions with China and through the WTO accession process, is attempting to obtain a transparent list of those standards being applied, and is working to identify and eliminate those that are merely qualitative in nature, disguised barriers to trade or unnecessary impediments to imports. The goal is to obtain application of international standards and to increase access through such mechanisms as MRAs.

Canada takes a similar approach to the numerous SPS barriers applied to agricultural products in the Chinese market. There continues to be a lack of transparency in the rules and administration of China's SPS regulatory system. The Canadian Food Inspection Agency is working closely with China on a number of SPS issues, particularly those relating to access for Canadian meat products, tobacco, seed potatoes and seed corn.

EXAMPLES OF PRODUCT-SPECIFIC MARKET ACCESS CONCERNS

Telecommunications Equipment

Sales of Canadian telecommunications equipment are doing well in China. However, there are some concerns as to the process of tendering for the sale of such equipment, and the fact that the country's telecommunications regulator, the Chinese Ministry of Posts and Telecommunications (MPT), is also a supplier that competes with imported products, as well as being the dominant carrier and customer. This creates the potential for undue influence on purchasing decisions. There are also indications that exporters face additional standards to those that have been identified by China.

China maintains a ban on foreign involvement in domestic telecommunications operations. The MPT actively encourages FDI and foreign technology, but does not allow foreign companies to invest in the telecommunications system itself. Entry into the equipment market is possible only through co-operation with Chinese equipment makers in Sino-foreign joint ventures, or by selling goods under an import tariff. Foreign firms can install but not operate telecommunications systems.

Newsprint

In October 1997, China introduced a new variable tariff, with a steep inverse relationship to price, with base figure of US\$550/tonne. This scale has the potential of imposing tariffs of anywhere from 3% (for high-priced imports) to 45% (for imports on the low end of the price scale). This variable rate is intended to compensate for loss of revenue from price fluctuations and as a reaction to a dramatic drop in newsprint prices, which had led to imports being priced lower than domestically produced newsprint. Canada has discussed this tariff with China, and has expressed its strong concern as to its potential for distorting trade and production decisions.

Agricultural Tariff Rate Quotas

China has announced its intention to implement a TRQ system for a number of agricultural imports, which constitute roughly 40% of the value of Canada's exports to China. It is therefore particularly important to Canada that this system be operated in as open, transparent, efficient and predictable a manner as possible, so that it does not distort trade. Canada is continuing to work closely with China to ensure that, if China proceeds, a TRQ system does not disadvantage Canadian agricultural products.

Boilers and Pressure Vessels

China requires that manufacturing facilities of boilers and pressure vessels are inspected by officials from the Ministry of Labour, before the product can be imported. This process requires that companies cover the costs of inspection, including travel

for the Chinese inspectors, which can be very costly, particularly to SMEs. Canada continues to promote the adoption by China of the American Society of Mechanical Engineers (ASME) standard for boilers, so that the cost to Canadian manufacturers is reduced.

Services

In the last few years, Canadian service-providers have gained increased access to the Chinese market. However, China continues to limit the operations of foreign-service companies through restrictions on where firms can operate and how many foreign firms can operate in certain sectors, and through regulations, including licensing requirements that discriminate against foreign-service firms. Canada is working as part of the accession process to moderate or remove these restrictions. Canada is particularly interested in increasing Canadian access to the financial, telecommunications and professional-services sectors, all of which are sectors of Canadian expertise and offer great potential in China.

INVESTMENT

Canada considers China to be a top priority for the negotiation of a Foreign Investment Promotion and Protection Agreement (FIPA). According to Statistics Canada, the stock of Canada's direct foreign investment in China was \$368 million in 1996 and potential direct investment is likely much higher given China's market size. Some reforms are underway in China as part of its WTO accession process; however, the economy remains highly centralized and under state control. In sectors open to foreign investment, it is essential that the principle of non-discriminatory treatment, particularly national treatment, apply.

HONG KONG

Overview

On July 1, 1997, Hong Kong reverted to China after 150 years of British rule. It is now officially known as the Hong Kong Special Administrative Region of the People's Republic of China. Details of the sovereignty transfer were determined by the Sino-British Joint Declaration of 1984, and by the Basic Law, the constitution for the HKSAR that was promulgated by the Chinese National People's Congress in April 1990. The Basic Law grants considerable autonomy in economic, trade, cultural and political affairs for 50 years after 1997. The HKSAR has its own financial system, and formulates its own monetary and financial policies. The Hong Kong dollar continues to circulate as legal tender. Hong Kong remains a free port and separate customs territory. It can conduct relations with states and international organizations on

the economy, money and finance, shipping, communications, tourism, culture and sports. Under the name "Hong Kong, China," it is a member of APEC and the WTO.

Canadian firms continue to enjoy excellent access to the Hong Kong market, and there are no outstanding bilateral market access issues. The Hong Kong government continues to develop its own economic, fiscal and budgetary policies based on its own interests and its dependence on trade. The policy of minimal government interference in the economy continues to apply equally with respect to trade in goods and services, and to investments.

Hong Kong Telecom announced on January 21, 1998, that it had agreed with the Hong Kong government to allow free competition in international telephone (IDD) services in exchange for a cash payment of US\$865.6 million (HK\$6.7 billion). IDD was the last area in which Hong Kong Telecom maintained a monopoly service. The agreement, which will come into effect on January 1, 1999, effectively makes Hong Kong the most liberal telecommunications environment in Asia.

INVESTMENT

Significant two way investment flows between Hong Kong and Canada total \$5 billion. Negotiations are continuing with the Hong Kong Government for a Foreign Investment Protection Agreement.

REPUBLIC OF KOREA

Overview

In 1997, Canada's goods exports to the Republic of Korea totalled \$2.881 billion, and imports were \$2.821 billion. Korea is Canada's third-largest market for merchandise exports in the Asia Pacific region (after Japan and China), and the sixth-largest worldwide (after Germany).

In November 1997, South Korea asked the International Monetary Fund (IMF) for financial assistance, after a crisis broke out due to doubts about its ability to repay high levels of private short-term foreign debt. Further uncertainty arose because of the presidential election on December 18, which was won by the main opposition candidate, Mr. Kim Dae-jung. The agreement reached with the IMF calls on Korea to reform its financial sector and corporate structure, and to open its economy wider to foreign goods and investors.

In January 1998, Korea and its international financial creditors agreed to roll over US\$24 billion in short-term debt. While the agreement stabilizes Korea's foreign-exchange problems, it still faces a major restructuring of its domestic economy. Growth will slow substantially while this process is under way, and Korea is expected to sharply reduce its imports in the near term. Nevertheless, Korea remains an important market for Canada, and it should emerge from the present crisis with a stronger economy.

The Canada-Korea Special Partnership Working Group (SPWG) was launched in April 1994 to identify ways to increase and strengthen economic ties between Canada and Korea. The Working Group's goal is to increase co-operation in areas such as trade, investment, industrial co-operation and technology transfer. A subcommittee of the SPWG addresses market access issues. A Committee on Industrial and Technological Co-operation has also been created to further increase co-operation between the private sectors of both countries, initially focussing on manufacturing technology, new materials, biotechnology, environment, energy and telecommunications.

Canada and Korea concluded an MRA on telecommunications equipment during the Team Canada trade mission to Korea in January 1997. Canada and Korea are involved in market access negotiations on telecommunications equipment, focussing on government procurement issues. A positive result in this area will give further impetus to trade in telecommunications equipment between Canada and Korea, and will place Canada on an equal footing with its competitors (the United States and the European Union).

Canada's Market Access Priorities for 1998

The Republic of Korea's economic policies are designed to promote its domestic industry and exports while discouraging imports of some value-added goods. Generally, tariffs, import licences and import procedures all favour the importation of raw materials and industrial equipment rather than finished goods. While there has been some liberalization of import procedures, significant obstacles and rigidities remain.

IMPROVING ACCESS FOR TRADE IN GOODS

Telecommunications Equipment

Canada seeks to improve access to private-sector and government procurement in Korea in the telecommunications equipment market. While Korea has implemented the WTO Agreement on Government Procurement, it has excluded purchases by Korea Telecom of telecommunications products and network equipment. Other barriers to access, such as localization policies, are of concern to Canada.

In 1997, Canada and Korea held discussions with respect to procurement. Canada continues to object to the preferential treatment provided by Korea to U.S. and European equipment manufacturers and is seeking the same guaranteed access that is provided to U.S. and EU firms, for both private-sector and government procurement in Korea.

Agri-food and Beverage Products

Tariff Rate Quota on Alfalfa

Korea's tariff-rate regime for alfalfa involves an applied rate of duty (currently 1% without quota) that is renewable every six months. Canada would prefer a predictable tariff for alfalfa. This would decrease the uncertainty for Canadian suppliers which is important, since this product requires significant fixed investments in Canada.

Feed Barley

The Korean minimum-access commitment for feed barley is extremely low. Korea opened a temporary 50 000 tonne TRQ for feed barley in 1996 and, in September 1997, tendered two bids for 17 000 tonnes and 50 000 tonnes. Canada has requested a longer-term commitment and an increasing TRQ size to reflect the growing needs of the Korean livestock industry.

Canola Seed and Canola Oil

Korea's applied tariff rates on canola seed and canola oil remain significantly higher than the applied rates for substitute vegetable-oil products. Since harmonization of tariffs between substitute products will not likely increase overall imports of edible oils, Canada has requested that the tariff margins between canola oil and competing vegetable-oil products be eliminated or

reduced. In 1997, the applied tariff rates for canola were 10% for seed, 15% for oil and 2% for feed. The applied rate for soybeans for the same products were 1%, 8% and 3% respectively.

Malting Barley and Barley Malt

Korea's latest applied tariff rate for malt is 10% versus 5% on malting barley. Previously applied rates, although higher, were equal. This new form of discrimination impedes access to market opportunities. To minimize artificial incentives and disincentives to import one product over another, Canada opposes the introduction of new tariff escalation between raw and processed products.

Tariffs on Feed Peas

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

Soybean Tendering

The tendering system administered by Korea's Agricultural Fishery Marketing Corporation prevents Korean importers from accessing the high-quality, premium-priced tofu-grade soybeans that Canada produces. Korea has a tariff-rate quota for food-grade soybeans, which is administered through international open tender, mainly on the basis of price. This is an inflexible system that has no provision for price premiums for quality, tendering on small lots or long-term contracting. Canada believes that Korea cannot currently fully supply its soy-processing sector with the required high-quality product and that it would be to the mutual advantage of both countries to provide more options in the administration of imports.

Bottled Water

Canadian bottled water exporters have experienced a number of technical barriers in Korea. Our major concern has been with respect to Korea's ban on ozone-treated bottled water. Ozonation treatment is used to maintain bottled water quality. It is widely used by the bottled water industry in Canada, the United States and other countries. Canada's position has been that there is no scientific basis for Korea's ban. The ban has effectively precluded most Canadian exporters from taking advantage of the Korean market for bottled water.

In December 1995, Canada held formal WTO consultations with Korea. As a result, Canada and Korea reached a bilateral settlement on April 1, 1996, whereby Korea agreed to amend the

relevant laws and regulations to allow the importation of ozone-treated bottled water by no later than April 1, 1997. Unfortunately, Korea was not able to pass its amended legislation until July 30, 1997. Korea then implemented amended regulations a month later. However, the amended regulations have created new problems for Canadian exporters by imposing trade restrictive labelling requirements for ozonated bottled water. Canada made further representations, emphasizing that we still consider the whole matter unresolved, and Korea has agreed to change the labelling requirements during the first quarter of 1998. Canada will continue to make further representations as necessary to resolve this and other technical market access problems (e.g. Korea's government-mandated shelf life requirements) for Canadian bottled water exporters.

Seal Meat

Korea maintains an informal import prohibition on seal products and has not yet responded to requests on its certification requirements for imports of seal meat for human consumption. Canada has made representations to Korean authorities pointing out that Canadian seals are not endangered and has asked Korea to allow imports.

The importation of seals was liberalized in Korea as of January 3, 1995. At present, imports of seal meat require approval from the Korean Minister of Health and Welfare, as a Canadian inspection certificate is not sufficient. The Korean authorities will also consider whether the meat has been traditionally or commonly used for human consumption in Korea. Canada will press to obtain the necessary approvals for the sale of seal meat in Korea.

Tariff on Alcoholic Beverages

The European Union, United States, Canada and Mexico contend that Korea maintains a tax regime which discriminates against imported alcoholic beverages. Canada is participating in WTO dispute settlement against Korea, in order to resolve the matter.

Investment and Services

Korea has made significant progress in the liberalization of its foreign-investment regime. The implementation of the measures contained in the 1995 Revision to the Foreign Exchange Reform Plan should further advance the liberalization process, particularly in the area of capital flows and foreign-exchange transactions.

In addition, the commitments that Korea has made with respect to its accession to the OECD will address a number of the concerns

that Canada has expressed regarding the Korean financial system and foreign direct-investment regime. As a result of the WTO negotiations in financial services, which concluded December 12, 1997, Korea has also agreed to bind many of its planned financial-sector liberalization measures in the WTO. Most recently, in its December 1997 agreement with the IMF, Korea has committed itself to extensive capital-account liberalization. All restrictions on purchases of Korean bonds by foreigners will be eliminated. Restrictions will also be relaxed on foreign ownership of Korean equities, as well as foreign takeovers of Korean firms. Lastly, foreign banks and brokerage houses are expected to be allowed to establish subsidiaries in Korea. Canada will continue to press for further financial-sector liberalization in Korea during the next round of WTO services negotiations.

CHINESE TAIPEI (TAIWAN)

Overview

Chinese Taipei is Canada's fourth-largest Asia Pacific export market, accounting for approximately 6% of our exports to this region. For 1997, total goods exports were \$1.573 billion, making it Canada's ninth largest export destination overall. The total value of Canada's merchandise imports in 1997 was \$3.466 billion. Continued growth in the economy in 1998 is expected to result in further growth in Canadian exports. Chinese Taipei is among Canada's stronger non-NAFTA destinations for value-added products from cars to planes, and a growing market for agricultural and agri-food products.

The economy of Chinese Taipei is trade-dependent: it is a major exporter and a major source of investment for the region, particularly to China and Southeast Asia, and is becoming an important regional importer. This has given strong impetus to trade and market liberalization, though domestic political pressures in this vibrant democracy continue to result in protectionist and discriminatory access conditions.

Canada's goal in the WTO accession negotiations with Chinese Taipei has been to secure more open access for a wide range of Canadian goods and services. Bilateral negotiations with Chinese Taipei began in 1994. Thirteen rounds later, in late 1997, a tentative conclusion was reached. Outstanding details related to commitments for agricultural, industrial and services products are yet to be clarified by Chinese Taipei and the final offers verified. Completion of these steps is required for formal conclusion of the bilateral negotiations.

Further, in early 1998, subsequent to the tentative conclusion of our bilateral accession talks, Chinese Taipei extended to the United States preferential access for several products, namely meat items of export interest to Canadian suppliers, for the period preceding Chinese Taipei's WTO accession. This incremental discrimination facing Canadian products in the Chinese Taipei market must also be resolved for Canada to officially conclude the bilateral market access negotiations with Chinese Taipei.

Chinese Taipei's undertakings in the accession negotiations include tariff reductions and bindings for goods such as chemicals, pharmaceuticals, paper and medical devices, in line with the zero-for-zero or harmonization arrangements adopted by Canada and others (mainly industrialized countries) in the Uruguay Round. As a member of the ITA, which was concluded in March 1997, Chinese Taipei agreed to the full slate of tariff eliminations on information technology/telecommunications products covered by this plurilateral WTO agreement. Canadian suppliers thus stand to gain 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 will remain favourable, as Chinese Taipei proceeds with the liberalization of its import regime in this sector. For agricultural products, Chinese Taipei's accession commitments will mean improved access for priorities, including grains, oilseeds, meat products and processed foods, plus a range of fish and seafood. Exporters of oilseeds, as well as of several fish items, will enjoy equitable market access terms in the Chinese Taipei market for the first time, as a result of the negotiations. Although some progress was made in improving access for Canadian beef, a commitment for equitable access for all high-quality Canadian beef was not forthcoming from Taiwan. Canada will continue to press Taiwan to end this discriminatory practice.

The past year saw outstanding financial services issues resolved satisfactorily in both the banking and insurance sectors. As well, Chinese Taipei tabled an offer for basic telecommunications services, following the conclusion of the ABT among WTO members in 1997. Chinese Taipei's final offer on services also includes commitments in other services sectors, including advanced telecommunications and environmental services.

As part of its WTO accession, Chinese Taipei has also applied to join the WTO Agreement on Government Procurement. Bilateral negotiations in this regard have progressed well.

Chinese Taipei has now concluded bilateral negotiations with most of the 26 trading partners with whom talks were undertaken. The focus of Chinese Taipei's accession negotiations will likely shift to the multilateral stage, where the Working Party Report and Protocol of Accession are still to be negotiated.

INDIA

Overview

The Indian economy has improved dramatically since 1991, when India launched its program of economic reforms and trade and investment liberalization. India's economic growth rate was 6% per year from 1993 to 1997. The fundamentals of the Indian economy are sound, and it has not been seriously affected to date by the financial problems in East and Southeast Asia. Total Canada-India merchandise trade for 1997 reached a record of \$1.191 billion, with a balance of \$289 million in India's favour. Canadian investment in the Indian market is significant; in 1997, Canada was the fifteenth-largest investor in terms of approvals, with investments in the first ten months of 1997 totalling \$144 million.

India offers significant opportunities for Canadian trade and investment. As well as a high growth rate, India has a middle class (i.e. an economic group with disposable income) of 200 million people whose demand for consumer goods is increasing rapidly. These opportunities were the inspiration for the successful 1996 Team Canada trade mission to India, during which Prime Minister Chrétien led a group of seven Provincial Premiers and Cabinet Ministers, and 300 business people to boost trade and investment ties.

Market-opening Results in 1997

Within the framework of the World Trade Organization (WTO), and under agreements reached with Canada and several other countries (the European Union, Japan, Switzerland, Australia and New Zealand), India will phase out import restrictions on a very wide range of products that are of interest to Canadian exporters. These import restrictions generally take the form of quantitative restrictions and outright bans on the import of goods covered by about 2700 different tariff items. The restrictions will be removed over three stages—covering the period April 1997 to March 2003—with the first "batch" of items scheduled to be liberalized at the end of March 1998. India has also committed to phasing out all restrictions on the import of goods covered by the ITA during the first stage, i.e. by March 2000.

Canada's Market Access Priorities for 1998

Despite the trade and investment potential, several problems remain in gaining access to Indian markets. In general, there is a lack of transparency in decision making and bid selection, and a decreasing, but continuing, use of wide-ranging import restrictions.

A number of significant Canadian projects depend on economic reforms in the sectors outlined below. These issues will be

discussed at the Indo-Canadian Joint Ministerial Committee scheduled for 1998. In 1998, Canada also intends to explore the creation of an enhanced bilateral framework for dialogue at the senior officials level on issues related to trade, investment and trade policy.

Telecommunications

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

India participated in the GATS basic telecommunications negotiations, essentially binding its existing regime, which provides for the government operator plus one other company. The private operator may have foreign equity of up to 25%.

High tariffs (in the 40% to 50% range) also impede Canadian firms' ability to sell in the Indian telecommunications market. However, Canada is encouraged that India has joined the ITA, with a commitment to eliminate its tariffs on a wide range of information technology products by the year 2005 at the latest.

With the recent implementation of the new Telecoms Regulatory Authority of India (TRAI), Canada will regulatory monitor processes in India, as they affect Canadian companies, particularly the transparency of the licensing regime for new carriers.

Power

Although power production has been increasing by over 6% a year, and despite strong domestic demand for additional power development, and many government proclamations of fast-track projects and one-stop application processing, few private projects have so far been implemented in the power sector. A lack of transparency, the present regulatory organization and the complications of state-level approval beyond that provided by the central government are further delaying much-needed projects. State electricity boards are largely in poor financial condition and will need greater support, major reforms and/or privatization, before progress can be made to reduce India's significant power-supply shortage. Restrictions in the Indian financial services sector also limit the number of projects that can gain adequate financing. Canada will continue to use every opportunity to advocate further reforms in this sector.

Financial Services/Insurance

India was a participant in the WTO financial services negotiations, which concluded in December 1997. During the negotiations, India made some modest improvements to its financial services offer, including the binding of an increased number of bank licences. However, India did not make any significant commitments in the insurance sector, as the Indian government was unable to enact regulatory reform in this area. The Indian insurance sector is completely in the hands of two government-owned monopoly providers of life and general insurance. As Canadian financial institutions consider India's insurance sector, particularly its life insurance sector, a high priority market, the Canadian government will continue to press for reforms in this sector.

Agricultural and Manufactured Goods

India maintains a large number of restrictions related to balance-of-payments ("negative list"), affecting both agricultural and manufactured goods. The list includes banned items (e.g. offal and animal tallow) and restricted items that require an import licence. A large number of items were removed from this list in the 1997 budget and subsequent annual export/import policy, but more than 2700 tariff lines remain. However, as mentioned above, India has agreed to gradually phase out these restrictions by 2003. Canada will monitor the process.

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

Additionally, India continues to increase tariff rates as a means of compensating for decreases in tax revenue. In September 1997, India added a 3% temporary tariff increase on all products. To date, this increase has not been removed.

Investment

Although FDI has been growing by more than 50% a year since reform began in 1991, India maintains a list of more than 50 sectors, where approval for investments up to 51% of ownership is automatic, if certain other conditions (such as location and performance requirements relating to imports of equity and new equipment) are met. All other investments must be approved by the Foreign Investment Promotion Board, and investments of over R\$3 billion (C\$120 million) or those that may have major (undefined) policy implications must be approved by a Cabinet committee. Foreign investment is prohibited in some service industries. Investment in other sectors is limited to a maximum of 49%

foreign equity. Up to 100% foreign ownership is permitted for certain areas, including export-oriented firms, energy, high technology and infrastructure, but approval for such ownership is not guaranteed. The procedures for obtaining investment approvals are often non-transparent.

A foreign investor can own a property for use in carrying out business transactions only with the permission of the Reserve Bank of India or state industrial developmental corporations. Generally, foreign investors must bring foreign exchange into the country for purchase or rental of property. Neither rental income nor the proceeds from a property sale can be remitted outside India at any time, unless the investor is a non-resident national or a person of Indian origin. Legislation for the protection of intellectual property, particularly patents in areas of interest to Canadian investors, is weak.

Canada is negotiating a Foreign Investment Promotion and Protection Agreement with India which, over time, will address these issues and will provide a more stable investment climate.

INDONESIA

Overview

Indonesia is Canada's largest export market in Southeast Asia and one of the largest destinations of Canadian direct investment in Asia. In 1997, two-way trade in goods reached \$1.57 billion with \$769.2 million of exports to Indonesia and \$808.6 million of imports. Wheat is Canada's single largest export to the market. Canadian oil and gas, and mining firms have considerable investments in Indonesia, and Canadian goods and services' exports in these sectors are growing. Deregulation of the telecommunications sector has opened up good opportunities in this market of over 200 million people.

Canada's Market Access Priorities for 1998

On January 15, 1998, the Government of Indonesia signed a Memorandum on Economic and Financial Policies (MEFP) with the IMF. The MEFP commits Indonesia to a program of market-based reforms that has far-reaching implications for Canadian goods and services exporters, through a renewed commitment by Indonesia to trade reform. Notwithstanding these recent developments, import licences, a limitation on distribution, and complicated bureaucratic procedures that raise the cost of transactions continue to serve as barriers to Canadian exporters.

Tariffs are applied on an MFN basis to a majority of imports. Through a series of reforms, Indonesia has lowered its average tariff, including surcharges, to 20%. However, tariffs escalate quickly and remain very high in industries such as transport equipment, textiles and paper products. Although Indonesia undertook, in the Uruguay Round, to bind approximately 95% of its tariff lines at a ceiling rate of 40%, key manufacturing sectors remain outside those commitments such as transportation equipment and food-processing equipment. In addition, while import surcharges have been greatly reduced in recent years (and are to be eliminated by 2005 on 95% of tariff lines bound in the Uruguay Round), for non-bound tariff lines, import surcharges remain, and, in manufacturing sectors, the average effective protection is 50%.

The recent elimination of the state-trading monopoly on the import and distribution of certain agricultural products, including wheat and wheat flour, will open up new markets for exporters. Finally, the handling of shipments in Indonesia can be controversial. The Government of Indonesia has introduced an electronic data interchange (EDI) system for customs clearance to eliminate opportunities for corruption and bribery. While the system is now operating, there is still ongoing collusion and bribery. The Association of Indonesian Importers claims that customs officials continue to insist on inspection for spurious

reasons, and that this results in bribes to avoid unnecessary delays.

Agri-food and Grain

Since February 1, 1998, Canadian exporters of food products have faced a maximum tariff of 5% on their exports to Indonesia. Non-food agricultural tariffs are also being reduced, in line with the January 15, 1998, Memorandum on Economic and Financial Policies, to a maximum of 10% by 2003. These lower rates represent a significant liberalizing of Indonesia's previous commitment (e.g. the tariff on wheat flour was 20%, and, on milk, the in-quota rate was 40%, while the ex-quota rate was over 200%).

Effective February 1, 1998, National Logistics Agency (BULOG), the state-trading entity, no longer enjoys its monopoly over the import and distribution of several agricultural goods, including wheat and wheat flour. As a consequence of the enhanced market access, due to lower tariffs and the removal of NTBs, Canadian agri-food exporters should see increased opportunities. Canada will seek to bind these lower barriers in the WTO.

Licensing and Surcharges

Notwithstanding the laudable achievements in over 10 years of trade liberalization, Indonesia still retains licences and surcharges that create considerable obstacles for Canadian goods' exporters. Until February 1, 1998, around one third of agricultural and manufacturing production was protected by a complex mixture of import licensing and surcharges on top of tariffs; however, while the agreement between the IMF and Indonesia on January 15, 1998 calls for elimination of many of these measures, it is impossible to judge at this time to what degree and at what pace these changes will be implemented. Canada will continue to urge Indonesia to reduce or eliminate remaining import licensing schemes, as well as the number of tariff lines, particularly for agricultural products, subject to surcharges.

Anti-dumping and Countervailing Measures

In keeping with its Uruguay Round obligations, Indonesia has recently put into place formal anti-dumping and countervailing legislation. Prior to this, Indonesia used import surcharges to provide relief to domestic firms complaining of damage from imported products. In the fall of 1997, Indonesia commenced an investigation into the alleged dumping of newsprint by certain exporters, including Canadian exporters. In part because of quick intervention by the Canadian government, the Government of Indonesia announced on January 28, 1998, that they had discontinued the investigation into the alleged anti-dumping of newsprint. Canadian officials will remain vigilant to ensure that Indonesia does not improperly use its new legislation to nullify or impair the export of Canadian goods into the market.

Financial Services

Canadian financial firms have been active in Indonesia for years. Indonesian authorities have gradually relaxed controls on the nature of foreign participation in the Indonesian banking and insurance sectors. The banking crisis in early 1998 caused the Indonesian authorities to open up the market much more quickly than previously envisaged.

Telecommunications

Telecommunications services are another area of key Canadian interest. Canadian officials continue to press Indonesia to liberalize its telecommunications regime.

Banking and Insurance

During the WTO negotiations on financial services, Indonesia made some important improvements to its financial services offer. Improvements included the binding of joint-venture financial institutions as per existing joint-venture agreements, and prevailing laws and regulations, allowing a majority foreign ownership of publicly listed non-banking institution and the removal of discriminatory capital requirements. Because of the crisis in the Indonesian financial sector, Indonesia has liberalized both the banking and insurance sectors further. Canada will seek to have Indonesia fully bind these improvements during future WTO negotiations on financial services.

Investment

Significant barriers exist for Canadian investors in Indonesia. The current Indonesian policy regime requires that all proposed investments, other than foreign investment in the oil and gas, and many mineral sectors, must receive approval from Indonesia's investment-approval body, BKPM. Despite improvements in BKPM's procedure in recent years, arrangements for obtaining licences that are needed to implement approved investments can be time-consuming and costly. For example, Canadian investors may be required to obtain a location licence, a building permit, a Nuisance Act Licence, a limited importer certification card, a tax registration, a manpower permit, a master list for importation of capital goods and raw materials, a land title/utilization permit and an operating licence. Each of these requirements causes delay and raises costs for Canadian investors. As mentioned above, Canadian participation in the oil and gas sector, and in most of the mining sector, falls outside BKPM rules. Foreign investment in these sectors is governed by specific sectoral laws and regulations that are administered by the Department of Mines and Energy. The complex regulatory regime, together with time-consuming and costly licensing and approval procedures, serve as impediments to Canadian investment and, in turn, hampers exports of goods and services in support of Canadian investment. Nevertheless, given actual and potential

Canadian investment, Indonesia remains a priority country for FIPA negotiations.

6. OPENING DOORS TO EUROPE

EUROPEAN UNION

Overview

The European Union is the world's largest single market. The fifteen countries comprising the EU, as a group, now rank as Canada's second most important trading partner after the United States having surpassed that country in both GDP and population. In 1997, Canada's merchandise exports to the EU amounted to \$16.5 billion, while imports totalled \$24.1 billion. Canadian services exports to the EU amounted to \$6.2 billion in 1996, and services imports from the EU reached \$7.6 billion. The EU is also the second-largest source and destination of FDI for Canada. In 1996, cumulative FDI from the EU amounted to \$38.2 billion, while Canadian direct investment in the EU had grown to over \$34.7 billion.

Canada-EU trade relations are managed through the WTO as well as the 1976 Framework Agreement for Commercial and Economic Co-operation, under which a structure of consultative committees has been established. The *Canada-EU Action Plan*, agreed to in 1996, sets out guidelines for the substance of the relationship, specifically a range of common undertakings in multilateral forums and on a bilateral basis. These include the conclusion of four bilateral agreements (Customs Co-operation, Veterinary Equivalency, Mutual Recognition of Standards Conformity Assessment and Application of Competition Laws), a joint trade study, statistical cooperation, business to business contacts and common endeavours in the WTO in areas such as trade and investment, competition, accessions, services and standards.

Two Canada-EU summit meetings have been held since the Action Plan was put into effect. An Agreement on Customs Co-operation was signed at the December 4, 1997, Transatlantic Summit in Ottawa, and on December 15, 1997, Canada and the EU signed an Agreement on Humane Trapping Standards. Representatives of three Canadian firms and the Business Council on National Issues attended the November 1997 session of the EU-US Transatlantic Business Dialogue in Rome. Consideration is now being given to full corporate participation by Canada in future sessions.

Work is well under way on two other key elements of the Action Plan—a joint trade study on ways to facilitate trade by identifying barriers in specific sectors and recommending ways to remove them. The study also deals with the development of business-to-business contacts, including some specific initiatives for SMEs. Terms of reference for the study have been agreed with the EU and the initial preparatory work has been completed. A draft of the joint trade study will be tabled at the

next Canada-EU Summit in May 1998. Recent proposals from the European Commission to extend the transatlantic trade relationship with the United States point to the importance of pursuing the full potential of the Action Plan. Canada is working to trilateralize any EU-US trade initiatives to ensure that Canadian trade and investment ties with the EU are further strengthened and that such initiatives act as a catalyst for broader, multilateral trade liberalization.

In addition, Statistics Canada and Eurostat have begun work on a project that will help to remove discrepancies between Canadian and European trade data.

The process of EU monetary integration and membership enlargement gained momentum during 1997. It is expected that formal negotiations will be launched shortly on the entry into the EU of Slovenia, Poland, Estonia, Hungary and the Czech Republic. Membership for Cyprus is proceeding on a separate, but parallel, track. The final stage of monetary union—the introduction of the Euro and the transfer of the conduct of monetary policy to the European System of Central Banks—is scheduled to begin in January 1999.

Canada is closely examining the expected impact on Canadian trade and investment of these developments, as well as monitoring plans for reform of the Common Agriculture Policy, which is included under European Commission President Santer's Agenda 2000 initiative.

Market-opening Results in 1997

In 1997, the market-opening results were as follows:

- ! Canada and the EU signed an Agreement on Customs Co-operation and Mutual Assistance, which will facilitate trade through simplification and harmonization of customs procedures, and will enhance the capacity to deal with violations of customs laws.
- ! Signing of the Canada-EU Agreement on Humane Trapping Standards restored secure access to the European market for Canadian fur products. This will contribute to increased employment opportunities in many remote northern regions, notably aboriginal communities.
- ! Conclusion of the Canada-EU MRA on conformity assessment for regulated products in December 1997 will reduce costs and facilitate market access in Europe for Canadian producers of telecommunications terminal equipment, IT equipment, electrical equipment, medical devices, pharmaceuticals and recreational boats.

- ! Canada and the EU have concluded negotiations on an agreement on equivalency of health requirements applicable to trade in animals and animal products, which will improve access to Europe for Canadian exports in this sector.

Canada's Market Access Priorities for 1998

International regulation of trade in goods and services between Canada and the EU is based on WTO rules. Canadian exporters to the EU continued to benefit during 1997 from improved access provided by the ongoing implementation of the WTO agreements. As noted above, Canada and the EU have also negotiated several bilateral agreements going beyond the WTO. However, there remains a range of barriers to trade in the EU of concern to Canada, particularly in the primary sectors. Work on the priority issues, including access for cereals, approval of genetically enhanced canola, restrictions on tallow, eco-labelling, wine-making standards and appellations, tariffs on fish, imports of furs, the banning of asbestos, untreated softwood lumber, beef hormones and a veterinary equivalency agreement, is outlined below.

IMPROVING ACCESS FOR TRADE IN GOODS

Agriculture

Protection for agricultural producers under the EU's Common Agricultural Policy (CAP) remains a key concern for Canada, since it both restricts access to the EU market for Canadian agricultural products and distorts third-country markets through EU subsidization of the production and export of grains. The accession of five Central and Eastern European countries will require significant reform of the CAP, if the EU is to maintain adherence to the spending and deficit-reduction targets imposed by the Maastricht Agreement as part of the implementation of European monetary union. EU measures to protect the health and safety of consumers are increasing, and are of major concern to Canada since they are not always based on science and are adversely affecting Canadian exports. Canada will continue to raise these concerns with the EU at the highest levels, as outlined below, and will pursue its rights under the WTO Agreement.

Cereals Import Regime

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

Canada requested a WTO panel on this issue in July 1995, but withdrew the request in December 1995, when an agreement was reached with the EU. The agreement included a 14 ECU/tonne refund on high-quality milling wheat and, for durum, a lower minimum-quality requirement. These changes applied for the balance of the 1995-96 crop year (July 1-June 30). For the 1996-97 crop year, the EU reinstated the higher quality requirement for durum, which served to restrict market access. During the 1997-98 crop year, agreement was again reached whereby the EU lowered the quality requirement, effective to June 30, 1998. Consultations with the EU to seek a more permanent arrangement are ongoing. Renewed WTO action has not been excluded.

Export Subsidies on Agricultural Products

The EU agreed during the Uruguay Round to reduce its subsidies on agricultural commodities under the Common Agricultural Policy (CAP) by 36%, and to reduce the volume of goods subject to such subsidies by 21%. Notwithstanding these commitments, EU subsidization of agricultural exports, particularly of cereals and malt, remains a major concern to Canada.

In its first export subsidy notification for the marketing year 1995-96 to the WTO Committee on Agriculture, the EU reported that its use of export subsidies had not exceeded its annual commitment levels both in terms of value and quantity. As of mid-February 1998, the EU's export subsidy notification for the marketing year 1996-97 had not been submitted. It is anticipated that in its second notification, the EU will report that its subsidies have not exceeded its scheduled commitments. However, it is likely that the EU will adopt the practice of using a "roll-over" of unused export subsidy commitment quantities from one year to the next for products covered in its schedule. At the WTO Committee on Agriculture, Canada has expressed concern about this practice and will continue to urge all WTO Members to exercise restraint in adopting this reporting procedure.

Alcoholic Beverages

Assured access for Canadian wines to the EU is conditional on the conclusion of a bilateral agreement. The European Commission requires an agreement in two broad areas: appellations and oenological practices. These issues are now under negotiations.

Canada is pursuing discussions with the European Commission in order to reach an agreement that will provide access to the EU market for Canadian quality-labelled wines. Until now, the main stumbling block has been the inability of both Parties to agree on the protection of European-origin geographical indications. Canada has also sought to obtain from the Commission the recognition of its oenological practices. The Commission's longstanding position has been to link both of these issues to protection of EU-origin geographical indications in Canada.

Given the lack of progress in the discussions, the Canadian wine industry was informed that access to the EU market will be blocked by September 1998 unless Canada concludes an agreement with the Commission.

Canada also seeks to have the "Canadian Whisky" appellation protected under EC regulation in line with the EU's WTO obligation, similar to the protection granted to Scotch Whisky and Irish Whiskey under EC regulations on spirits.

Fish

Canadian exporters of fish and seafood products continue to be disadvantaged by high EU tariffs. The EU groundfish tariffs on many items of interest to Canada fall within the range of 7.5 to 12%, while coldwater-shrimp exports are faced with tariff rates of 12 to 20% depending on product form. Canadian fish and seafood exports to the EU have declined nearly one third from \$446 million in 1988 to \$304 million in 1996. This is explained in part by the reduced Canadian supply of groundfish, but a more significant factor is the competitive disadvantage to Canadian exports caused by the high level of tariffs. The disadvantage has worsened in recent years with the accessions of Sweden and Finland to the EU, and new preferential terms of access for Norwegian and Icelandic exporters. It will continue to be a priority for the Canadian government to seek improved access to the EU for Canadian fisheries exports, particularly for herring, mackerel, smoked salmon, processed lobster, snow crab, coldwater shrimp and fresh oysters.

Technical Barriers

A key element of the EU single-market program is the elimination of technical barriers to internal trade through mutual recognition of voluntary national standards, testing and certification of conformity, as well as the legislation of EU-wide directives on essential technical requirements. The directives cover a wide range of goods, including construction products, toys, machinery, electrical goods, telecommunications terminal equipment and medical devices. Compliance with EU technical directives, member-state legislation and/or (where applicable) voluntary standards are prerequisites for access to EU markets for a growing range of goods.

Many Canadian exporters consider the complexity of these requirements, much less their substance, to be a technical barrier to trade. Some EU directives cover several sectors, such as the one dealing with electromagnetic compatibility (EMC). There are others such as the personal protective-equipment directive that apply to only one product or sector. However, there is also a third category, which includes telecommunications-terminal equipment, that stipulates compliance with both product-specific and horizontal requirements.

A draft MRA on certification of conformity with each other's requirements (Telecommunications Equipment and Electromagnetic Compatibility, Recreational Boats, Medical Devices, Pharmaceutical Goods Manufacturing Practices and Electrical Safety) was initialled in May 1997 in Brussels, and is expected to be approved by both the EU Commission and Canada, and to be formally signed in May 1998.

Genetically Modified Canola

In 1997, the Canadian canola industry decided not to segregate the production of genetically enhanced canola with herbicide-resistant traits from traditional canola production. This was because the varieties registered for commercial production in Canada had all undergone safety assessments and were determined to be substantially equivalent to traditional canola. Canada's largest export markets (Japan, the United States and Mexico) had also approved the traits in the varieties under cultivation in Canada, and it was therefore no longer economically justifiable to segregate production. Some 25 percent of Canadian canola acreage was grown with genetically modified (GM) canola in 1997. The EU has only approved two of Canada's GM varieties, and thus Canada is unable to export canola to the EU from the 1997 crop. Canada's position is that there are no health and food safety reasons why the GM canolas should not be approved for the EU market.

Canadian canola exports to the EU have averaged \$240 million per year. The lack of approval has affected mutually beneficial trade in oilseeds. EU oilseed crushers periodically import oilseeds from Canada which allows European oil exporters to take advantage of opportunities in third country markets. Canada will continue to take every opportunity to press for access for GM canola exports.

Specified Risk Materials (SRM) Ban

In July 1997, the EU had proposed to ban the use of specified risk materials (SRMs) as a bovine spongiform encephalopathy (BSE)-related measure. The ban was originally intended to cover products of animal origin intended for food, feed and fertilizer as well as cosmetics, pharmaceuticals and industrial products. The ban would therefore apply to the manufacture of tallow and its derivatives. In February 1998, the Commission announced amendments to the July 1997 proposal. Starting July 1, 1998, an enlarged list of SRMs will have to be removed in products destined for food, feed or fertilizer use. However, derogations will be evaluated for BSE-free countries and any country not having native BSE cases (Canada is BSE-free). Countries applying for such a derogation will have until January 1, 1999 before the SRM rules come into effect. The Commission has also indicated that pharmaceutical, cosmetic and industry products will now be covered by separate legislation.

The EU ban has the potential to affect about \$60 million of Canadian tallow exports to the EU. Canada and the United States have argued that tallow and its derivatives are heat-treated during manufacturing to a point where the BSE-infective agent is eliminated. Canada has formally requested a derogation for tallow exports in view of Canada's BSE-free status, and the lack of any scientific evidence that tallow carries the BSE agent, if certain good manufacturing practices are adhered to. Canada will continue to make representations to protect our trade interests.

Fur

In 1991, the European Council passed a regulation to ban all jaw-type leghold traps in the EU by 1995, which would have applied to third countries exporting fur to the EU. In the early 1990s, federal and provincial governments in Canada decided that a wide-ranging agreement on the definition of humane traps would be of greater significance from a trade and animal welfare perspective than a simple domestic ban on jaw-type leghold traps. In mid-1996, Canada, the EU, Russia and the United States started the negotiation of a Humane Trapping Standards Agreement.

On December 15, 1997, Canada and the EU signed the Agreement on International Humane Trapping Standards, and Russia will sign at a later date. Signatories to the Agreement may not apply trade measures against each other. This will ensure secure market access for Canadian fur exports to the EU.

In late December 1997, the United States and the EU signed an Agreed Minute, which is basically equivalent to the EU-Canada-Russia Agreement. The United States-EU arrangement makes it possible for Canadian fur traders and auction houses to combine U.S.- and Canadian-origin furs for shipment to the EU. Fur shipments entering the EU as of December 1, 1997, must be accompanied by certificates of origin. A certification system is now operational in Canada, which will ensure continued market access to the EU for Canadian fur and fur products.

Chrysotile Asbestos

Austria, Luxembourg, Sweden, Italy, Netherlands, Finland, Germany, France and Belgium have severely restricted or banned the use of chrysotile asbestos, which is largely imported, in favour of domestically made substitutes. In 1997, Canada exported a total of approximately \$16 million in asbestos and asbestos-containing products to the EU, down from a total of approximately \$50 million in 1993.

The Canadian government, in partnership with Québec, the industry, the unions as well as the affected communities, seeks to maintain market access for asbestos products. Last Fall, Prime Minister Chrétien raised this issue with his counterparts from the United Kingdom and France. Senior Canadian officials have

also discussed measures affecting chrysotile asbestos on a number of occasions with their European counterparts.

In December 1997, the Canadian government organized a gathering of government and industry representatives from other asbestos producing countries. Similar meetings were convened in January and February 1998. The goal of these meetings was to develop a common strategy for the maintenance and promotion of the chrysotile asbestos industry worldwide, as well as to address concerns regarding the use of asbestos in Europe.

Canada believes that the bans imposed by many European countries cannot be justified by scientific risk assessments, and that these bans are not proportional to the risks presented by chrysotile asbestos in specified applications. (Indeed, a recent peer review of a technical paper that had been commissioned by the European Commission questions the growing use of asbestos bans in Europe as a means of protecting public health.)

In Canada's view, the scientific evidence favours a controlled-use approach to chrysotile asbestos and therefore the Government will continue to seize all opportunities to persuade the EU and the individual member states to maintain responsible-use policies instead of imposing bans. Canada attaches the highest priority to protecting export markets for chrysotile asbestos and will consider every available option, including use of the WTO's dispute settlement procedures, to accomplish this objective.

Eco-Labeling

The EU Commission has an eco-labelling program called the "Flower Program". It includes a number of criteria relevant to paper products. The criteria used for the program largely reflect European regulatory requirements. Canadian industry has complained that this discriminates against their products, which are produced on the basis of Canadian regulatory requirements.

At the December 1996 WTO Ministerial Conference in Singapore, Ministers stressed the importance of WTO members following the provisions of the Code of Good Practice of the WTO's Agreement on Technical Barriers to Trade in their eco-labelling programs. Canada will pursue this matter, both on systemic grounds in the WTO, as well as considering other options to address the legitimate concerns of Canadian industry.

Phytosanitary Import Regulations

Pinewood Nematode

Since July 1993, the EU has required that Canadian exports of softwood lumber except cedar be either kiln-dried or heat-treated to ensure the elimination of the pinewood nematode (PWN) insect. This requirement has effectively eliminated Canadian exports of

untreated softwood lumber to the EU. Canada has indicated on numerous occasions that it views this as an excessive measure, given the negligible risk of transmission of PWN from Canada to the forests of Europe. Canada has proposed, unsuccessfully, alternative mitigating measures to ensure the safety of its exports of untreated softwood lumber in relation to PWN.

Canada is currently assessing its options with the Canadian industry, including pursuing the matter under the WTO.

Beef Hormones

In 1989, the EU banned the use of growth-promoting hormones in livestock and imposed a ban on the importation of beef produced with growth-promoting hormones. Both Canada and the United States consistently opposed the ban on the grounds that it was not based on scientific evidence and was an unjustified barrier to trade. The safety of growth-promoting hormones has been endorsed by the *Codex Alimentarius*, an international body established to set food-safety standards, and by Canada's own scientific reviews. After consultations with the EU failed to resolve the issue, a WTO panel was established in October 1996. In August 1997, the panel released its report, which was favourable to Canada. However, the EU appealed the decision in September 1997.

The report of the WTO Appellate Body set up to review the appeal by the EU was released on January 16, 1998. Although it modified some of the earlier findings, the Appellate Body concluded that the EU ban violated the Agreement on Sanitary and Phytosanitary Measures, because it was not based on a risk assessment. On February 13, 1998, the DSB adopted the panel and Appellate Body reports.

Canada will monitor the EU response to the panel report, as amended by the Appellate Body, to ensure that the EU takes appropriate actions to bring its measure into compliance with the ruling and lifts its ban. WTO members have a reasonable period of time in which to implement panel decisions. Past WTO practice suggests that a reasonable period of time should not exceed 15 months.

Veterinary Equivalency Agreement

The EU is conducting separate negotiations with Canada and a group of other countries, including the United States, Australia and New Zealand, on bilateral agreements on veterinary and health standards for trade in live animals, animal products, fish and fish products. Canada and the EU concluded negotiations in 1997, and Canada is pressing the EU to have the agreement formally signed as soon as possible. Once signed, the Canada-EU Agreement will facilitate two-way trade involving some \$550 million in exports from Canada to the EU and \$250 million in imports from the EU to Canada.

GOVERNMENT PROCUREMENT

Several EU member states have not yet implemented the procurement procedures required to give effect to the WTO Agreement on Government Procurement (AGP). In addition, procurement in a number of sectors of interest to Canadian suppliers remains closed. Procurement trade is low even between EU member states. Particular barriers that serve to restrict access include standards, certification, qualification and local content requirements. Canada is addressing these issues with the EU in the WTO Government Procurement Working Group and in the context of the Joint Canada - EU Action Plan and Trade Study underway to facilitate trade in goods and services to further reduce or eliminate tariff and non-tariff barriers.

Telecommunications

The ABT came into effect on February 5, 1998. As of that date, the EU's internal liberalization of telecommunications services will apply to all members of the WTO. Canada will continue to monitor member state implementation of GATS obligations, particularly with respect to interconnection and the ending of telecommunications monopolies.

EUROPEAN FREE TRADE ASSOCIATION (EFTA)

Overview

In a speech to the Canada-United Kingdom Chamber of Commerce on October 23, 1997, Prime Minister Chrétien indicated that Canada would like to see a free trade agreement between Canada and the European Free Trade Association (EFTA). EFTA countries include Iceland, Norway, Liechtenstein and Switzerland. At their December 1997 meeting, EFTA Ministers welcomed Canada's proposal and the prospect of discussing an FTA with Canada.

Two-way trade between Canada and the EFTA countries is significant. In 1997, Canada's goods exports totalled \$1.174 billion and goods imports reached \$4.275 billion. Canadian exports to EFTA countries consist mainly of base metals and minerals, aircraft and vehicle parts, lumber, chemical pulp, fish and crustaceans, agri-food products (soybeans, cereals and horse meat), electronics and telecommunications equipment. Also, EFTA countries are important sources of job-creating foreign investment in Canada.

Canada's first priority is to conclude Trade and Economic Co-operation Arrangements (TECAs) with individual EFTA countries, which will serve as foundations for discussions on possible future free trade. Minister Marchi signed a TECA with Norway on December 3, 1997, and with Switzerland on December 9, 1997. A TECA with Iceland should be concluded in early 1998. The TECAs will further enhance economic relations between Canada and the respective countries, stimulate increased cooperation in areas of mutual concern, including in multilateral fora, and encourage alliances between companies in Canada and the respective EFTA countries.

Discussions with individual EFTA countries will likely occur in the spring and early summer of 1998, under the auspices of the respective TECAs. In addition to reviewing bilateral trade and economic relations, and developments in the multilateral system, Canada intends to use these discussions to explore the scope of possible FTA negotiations. Canada will consult closely with Canadian businesses, provinces and other interested parties to determine Canadian priorities and objectives with respect to the EFTA.

RUSSIAN FEDERATION

Overview

In 1997, Canada's goods exports to the Russian Federation reached \$357 million; imports totalled \$621 million. Canada's services

exports are estimated at \$300 million per year. The stock of direct Canadian investment in Russia exceeds \$500 million, which includes approximately \$200 million invested by Canadian mining companies in the past three years. The Government is working to improve access to this important market for Canadian traders and investors along three main tracks: the bilateral Intergovernmental Economic Commission; the negotiations on Russia's entry into the WTO, and through the negotiation of a new Foreign Investment Promotion and Protection Agreement (FIPA).

Bilateral

The Intergovernmental Economic Commission (IEC) helps to identify and resolve difficulties and obstacles faced by Canadian companies in Russia. Sectoral working groups focussing on oil and gas, agriculture, housing and construction, and industry development in advanced technologies, work to enhance opportunities for Canadian traders and investors. An additional working group may be created to focus on standards and certification issues, which pose significant challenges to Canadian companies across a number of sectors. For example, Canadian exporters face a multitude of product testing and certification requirements before their products can enter the Russian Federation; different products often require multiple certificates of conformity (i.e. fire, health, occupational safety), each of which are issued by different and sometimes competing Russian regulatory authorities; and public information on regulatory requirements is often difficult to obtain.

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

WTO Accession

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

Throughout discussions held in 1997, Canada has underlined its support for Russia's eventual membership in the WTO on commercially viable terms generally applicable to newly acceding members. Russia's membership in the WTO will give Canadian traders and investors enhanced and more predictable access to this important market. It will also consolidate the economic transition process in the Russian Federation and strengthen the multilateral trading system.

Although much has been achieved in recent years, considerable work remains before Russia's trade and economic system will be in conformity with WTO disciplines. Throughout 1998, Canada will continue to press for increased transparency, as well as more open, secure and non-discriminatory market access for Canadian goods and services providers.

The Russian Federation presented its initial tariff offer in February 1998. This sets the stage for bilateral negotiations in which Canada will seek tariff concessions on products of current and future export interest to this market, such as oil and gas equipment, agricultural and agri-food products, vehicles and telecommunications equipment. Canada will, among other things, look to Russia to bind all its tariffs at or below currently applied rates; to join various zero-for-zero initiatives agreed in the Uruguay Round; and to provide non-discriminatory access, for example, in the oilseeds sector.

With regard to market access for services, the Russian Federation may present an initial offer in 1998. In subsequent negotiations, Canada will look for Russia to take binding commitments in the temporary movement of natural persons and the establishment of commercial presence. Canada has particular interests in the areas of professional and other services, including computer and related services, basic and enhanced telecommunications, financial services, construction services, environmental services and transport services. Canada will be looking for the removal of restrictions and discriminatory measures for the cross-border, consumption-abroad and commercial-presence modes in these sectors.

Investment

Given the potential for natural resource development and other forms of infrastructure, services and industrial investment, Canada and Russia began negotiations in January 1998 on a new Foreign Investment and Protection Agreement (FIPA). The existing FIPA, signed between Canada and the USSR in 1989, falls short of the desired level of protection for Canadian investors. A new FIPA would improve conditions for increased Canadian investment, including in several large infrastructure projects now under negotiation.

Current risks for investors in the Russian Federation include uncertainty regarding the provisions of pending domestic investment legislation and the application of the rule of law more generally, including the enforceability of the existing FIPA. Through 1998, in addition to working to conclude negotiations on the new FIPA, the Government will continue to advocate on behalf of a number of Canadian companies that are involved in investment-related disputes in the Russian Federation.

UKRAINE

Ukraine applied to join the WTO in 1994, as part of its general program of market orientation and integration into international organizations. Over the coming year, Canada will continue to focus on the need for increased transparency and more open, secure and non-discriminatory market access for Canadian exports of goods and services. Canada is a member of the WTO working party that is charged with examining Ukraine's application. In the working party, Canada will continue to pursue specific market access issues such as trade activities of state enterprises, including barter trade; government procurement; subsidies, pricing and taxation; intellectual property protection; the customs system; standards and other technical barriers to trade; agricultural sector policies; policies and regulations affecting services trade; and trade agreements with other CIS member states.

In addition, as part of the accession process, Canada has started bilateral market access negotiations with Ukraine on both goods and services. Ukraine is an important market for Canadian exporters. Our goods exports for 1997 totalled \$22 million, and imports were \$27 million. Canada is seeking lower tariff levels and the removal of NTBs on products of export interest such as oil and gas equipment, agri-food products and equipment, construction materials, high-technology products and additional industrial items. Canada will look to Ukraine to bind its tariff commitments; to join various zero-for-zero and harmonization initiatives agreed in the Uruguay Round; and to provide non-discriminatory access for products such as oilseeds. Canada is also seeking commitments from Ukraine in key services areas, including professional, telecommunications and financial services. Canada is looking for binding commitments in the temporary movement of natural persons and the regulations that allow foreign services firms to establish a local presence in Ukraine.

Through the Canada-Ukraine Intergovernmental Economic Commission, Canada is working with the Canadian business community to identify specific measures in Ukraine that inhibit bilateral trade and investment, and to raise these in plenary and working group sessions with senior Ukrainian Ministers and Ukrainian business people. Taxation, standards and discretionary application of regulations are among the key issues under review.

7. OPENING DOORS TO OTHER KEY MARKETS

AUSTRALIA

Overview

Australian imports from Canada amounted to \$932 million in 1997, while Canadian imports from Australia amounted to \$1.177 billion for a two-way total of \$2.109 billion. Canadian sales successes in Australia continue to be oriented toward fully manufactured goods, a pattern closer to that of the United States than of any other Asia Pacific market. Almost 75% of what Canada ships to Australia is manufactured goods and end products, much of this originating with SMEs.

There are natural affinities between Canada and Australia arising from similar legal and regulatory systems, comparable federal structures and a trading relationship reaching back over 100 years. Most trade between the two countries takes place at MFN rates, including substantial amounts at duty-free rates.

As of July 1, 1997, most MFN applied rates were at, or below, 5%. However, some tariff peaks reaching into the 25% to 30% range remain, e.g. passenger motor-vehicles, textiles, clothing and footwear. Some important non-tariff measures have an impact on market access, especially the tough sanitary and phytosanitary requirements imposed by the Australian Quarantine and Inspection Service. Most fisheries, meat, livestock, fruit, vegetable and food product imports face restrictive measures, ranging from prior approval and lengthy time delays in quarantine (e.g. Canadian dairy and beef breeding stock, and ostriches) to outright bans (fresh, chilled and frozen salmon). Other measures affecting access for Canadian goods and services include product standards; government procurement practices (which vary from sector to sector, and from Commonwealth to state levels); and trade-remedy laws (Australia is among the most active users of anti-dumping and countervailing duty statutes).

Salmon

Since 1975, Australia has prohibited the importation of fresh, chilled and frozen salmon on alleged fish-health grounds. Canada's position is that there is no scientific basis for the ban. In 1994, Canada held GATT consultations to press Australia to review the measure. Following consultations, Australia agreed to conduct an Import Risk Assessment (IRA) of wild Pacific salmon imports. In May 1995, Australia issued a draft IRA, concluding that imports of wild, headed and gutted Pacific salmon from Canada and the United States presented a "negligible" risk of disease introduction, and should be permitted under certain conditions. The draft IRA encountered strong domestic criticism, however, particularly by the Tasmanian salmon producers. As a result, Australia undertook to conduct a comprehensive review of

all the comments made on the original IRA and to publish a second version of the draft IRA. After many delays, the revised IRA was released for public comment in May 1996. Canada stated its disappointment with the new IRA on the basis that it backtracked from the conclusions of the original IRA. On December 20, 1996, the Australian government announced its decision to maintain the ban.

On April 10, 1997, the WTO acceded to Canada's request for the establishment of a dispute settlement panel. The panel held its first hearing with the Parties in September 1997, and its second oral hearing in February 1998. The panel is expected to issue its final report by the end of May.

Pork

Canadian pork exports to Australia have been hampered by numerous market access problems in recent years, including several technical barriers. In January 1993, Australia imposed controls on fresh, chilled and frozen pork from Canada, based on alleged animal-health concerns. These controls effectively ban the importation of Canadian fresh, chilled and frozen pork for retail sale, but do allow the importation of Canadian pork for processing, based on cooking requirements on arrival in Australia. Canada has made representations objecting to these controls on grounds that they are unnecessarily trade-restrictive, but the issue remains unresolved.

In response to interest from Canadian exporters, Canada made a request for access for cooked pork products in April 1996. Following considerable delays, and several Canadian representations, Australia announced in November 1997 that it would allow the importation of cooked pork products from Canada. Following further technical-level discussions, Canadian exporters are now able to export cooked pork to Australia.

ISRAEL

One year into the Canada-Israel Free Trade Agreement (CIFTA), bilateral trade between the two countries is increasing steadily. Two-way trade in goods expanded to \$533 million in 1997, an increase of 5% from 1996. Canadian firms continue to make strong gains in such priority areas as telecommunications; power and energy; transportation; agri-food; and construction equipment and products.

The biggest factor in increased trade between the two countries is the removal of virtually all tariffs on industrial products, and the reduction of many tariffs on agriculture and agri-food products. As provided for under the CIFTA, it is anticipated that

Canada and Israel will begin discussions in 1998 to further liberalize trade in agriculture and agri-food products. Key areas of export interest include fish, fresh and frozen fruit and vegetables, and prepared frozen foods.

WEST BANK AND GAZA STRIP

Canada is committed to providing the same preferential trade terms to goods originating from the West Bank and Gaza Strip as goods that originate from Israel. Discussions on how this can be achieved and how best to further promote our trade and investment relations are ongoing. Further consultations with the Palestinians to finalize a Memorandum of Understanding on enhancing trade and economic co-operation will be undertaken in 1998.

SAUDI ARABIA

Multilateral negotiations regarding Saudi Arabia's accession to the WTO began in May 1996. Canada's underlying objective in both the bilateral and multilateral negotiations is to secure reform and market access commitments that are commensurate with Saudi Arabia's role in global trade and its importance to Canada as our 25th-largest export market with \$478.1 million worth of goods exports in 1997.

A full examination of Saudi Arabia's international trade-policy regime is proceeding in the WTO working party. Key issues still under review include agricultural policy, particularly domestic support, intellectual property rights and flexibility requirements upon accession. Canada and Saudi Arabia have just begun bilateral market access negotiations on goods and services. The initial offers made by Saudi Arabia in September 1997 were modest. On goods, Canada has requested concessions on approximately 200 tariff lines, including key agricultural and industrial exports such as fish, grains, wood products and auto parts. Canada is also seeking Saudi Arabian compliance with WTO multilateral agreements, including existing zero-for-zero agreements, the ITA and the Pharmaceutical Agreement, as well as the Agreement on Government Procurement. On services, Canada is seeking more open and predictable access for its service providers in key sectors such as telecommunications and environmental services. Canada also wishes to ensure that Canadian business personnel have rights of temporary movement that allow them to enter Saudi Arabia as required to deliver their services.

Investment

Canadian FDI in Saudi Arabia is \$6 million, and investment potential is high, given Saudi Arabia's announcement of new investment requirements in the area of power generation/transmission (\$160 billion over the next 25 years), telecommunications (\$8 billion over the next 10 years) and natural gas (\$5.5 billion over the next five years). Canada and Saudi Arabia will begin formal negotiations on a FIPA in 1998.

SOUTH AFRICA

South Africa is Canada's top export market in Sub-Saharan Africa. In 1997, Canadian goods exports to South Africa reached \$350 million. Canada had extended General Preferential Tariff status to South Africa in 1994. Imports from South Africa were over \$490 million last year. Canada and South Africa are considering putting in place a framework to enhance our dialogue on trade and investment issues. In the meantime, discussions to finalise a Canada-South Africa Foreign Investment Protection Agreement (FIPA) are proceeding.

In late 1997, Canada provided a programme of technical assistance to South African trade policy specialists. This was in support of South Africa's effort to strengthen its capacity to develop and implement trade policy priorities, for example, in relation to its rights and obligations as a Member of the WTO. Building on this successful cooperation, in the coming year, Canada will explore ways to enhance trade and economic cooperation with South Africa on bilateral and multilateral issues of mutual interest.

Canada is concerned by recent reports of proposed South African tariff rate increases affecting imports of products such as wheat and poultry. The Canadian government is monitoring the situation in order to identify any impact on Canadian exports and to verify whether the proposed increases in tariff rates are consistent with South Africa's WTO obligations.

Canada is also monitoring developments in the trade negotiations between South Africa and the EU, as well as progress in the trade liberalization talks within the Southern African Development Community (which includes Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe).

8. SUMMARY OF MARKET-OPENING RESULTS IN 1997

WORLD TRADE ORGANIZATION (WTO)

- ! Negotiations on an Agreement on Basic Telecommunications (ABT) concluded in February 1997, with the participation of countries accounting for over 90% of worldwide telecommunications revenues. The agreement, which came into effect in February 1998, gives Canada secure access to key markets in the United States and the EU; improved opportunities to serve countries in Asia and Latin America; and the benefits of a transparent, multilateral, rules-based trading framework.

- ! In March 1997, Canada and 42 other governments concluded the Information Technology Agreement (ITA), creating a duty-free market representing over 92% of the US\$500-billion-a-year world trade in information technology products. With tariff cuts having started in July 1997, the ITA will lead to improved market access, lower prices on inputs for Canadian producers, and growing markets.

- ! In December 1997, Canada was one of 70 countries that successfully concluded negotiations on a financial services agreement. The agreement, which covers countries representing over 95% of world trade in financial services, will give Canadian financial institutions improved access to key markets in Europe, Asia and Latin America, and should lead to new export and job opportunities in Canada.

INVESTMENT

- ! Canada successfully concluded Foreign Investment Promotion and Protection Agreements (FIPA) with the following five countries: Thailand; Croatia; Lebanon; Armenia and Uruguay. These agreements will help to create secure investment climates for Canadian investors and to promote bilateral investment.

- ! In addition, the FIPAs which Canada had signed in 1996 with Barbados and Ecuador came into force.

UNITED STATES

- ! Building on the 1995 "Accord on our Shared Border" Canada and the United States pursued several initiatives in 1997 to speed road, rail and sea transit, as well as in-transit preclearance at Canadian airports.

- ! Amendments to Canada's Foreign Extraterritorial Measures Act effectively serve to prevent the enforcement of judgements under the U.S. Helms-Burton law in Canadian courts, and allow a Canadian company to sue to recover damages awarded

against it by a foreign court.

- ! Canada and the United States implemented an agreement on trade in sugar and sugar-containing products that gives Canadian exporters of these products assured access to the U.S. market.
- ! A comprehensive allocation system under the five-year Canada-U.S. Softwood Lumber Agreement was successfully implemented on behalf of Canadian industry and of the producing provinces. This system provides for greater predictability for Canadian exporters planning softwood lumber shipments to the United States.
- ! Canada successfully defended against U.S. pressure to reduce Canadian exports of wool suits, sport coats and pants.
- ! Unrestricted access to the U.S. grain market was maintained in the face of political pressure on the administration from Congressional representatives for a return to a more restrictive import regime.
- ! A group of 21 non-profit citizens' organizations filed a challenge on the constitutionality of Chapter Nineteen of the NAFTA and the FTA. That challenge was later dismissed for lack of standing before the court.

MEXICO

- ! The completion, in July 1997, of the first round of accelerated tariff elimination among Canada, Mexico and the United States, on a number of key products.
- ! Measurable progress on an interim work plan and a preclearance program allowing the resumption of exports of certain classes of seed potatoes.
- ! Signature of a Memorandum of Understanding (MOU) in the Field of Telecommunications to serve as a basis for co-operation in this important area.
- ! A successful appeal by Canadian industry of one final anti-dumping determination by Mexico on Canadian hot-rolled sheet (duties were terminated).
- ! The completion of a procurement study that successfully underlined Canadian concerns regarding Mexico's compliance with bid-notification requirements.

ASIA PACIFIC ECONOMIC CO-OPERATION (APEC)

- ! In November 1997, APEC members agreed to pursue an ongoing program of voluntary liberalization in 15 sectors with 9

priority areas: chemicals, energy sector, environmental goods and services, fish and fish products, forest products, gems and jewellery, medical equipment and instruments, telecommunications equipment and toys. Several Canadian export priorities are included in this list.

JAPAN

- ! Canada, along with the United States and the European Union, concluded negotiations with Japan in settlement of its obligations stemming from the findings of the WTO panel on Japan's liquor-tax regime. However, the required tax changes will not be fully implemented until October 2001. Since this timing bends WTO rules, which normally require implementation within 15 months of the panel result, Japan is paying compensation. By April 2002, it will reduce tariff rates to zero on all distilled spirits products, including Canadian whisky.
- ! The National Research Council's Canadian Construction Materials Centre (CCMC) signed liaison agreements with the Japanese Ministry of Construction's Building Centre of Japan, as well as with Japan's Centre for Better Living, entitling CCMC to provide technical data for the assessment of building products, as well as, to participate in the evaluation and development of new standards.
- ! Japan agreed to a Canadian request to develop a new standard to expand the use of Canadian softwood concrete-form plywood in Japan (JAS 932).
- ! Construction of three-storey multi-unit wooden buildings was prohibited in semi-fire-rated zones, until the Ministry of Construction announced an easing of building restrictions in August 1997.
- ! Japan has agreed to recognize the higher stress-value capabilities of Northern Hemlock and Douglas Fir (Canadian lumber species), allowing for their use in a wider range of applications.
- ! Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) formally approved the results of a Canadian hay-fumigation test, allowing for baled hay that is fumigated in Canada to enter Japan without the need for further inspection on arrival.
- ! Japan approved the importation of three varieties of transgenic canola for environmental, food and feed safety in 1996, and has just recently decided to extend the approval to conventionally derived progeny of approved transgenic lines.

- ! Canada and Japan reached an agreement in principle on revisions to the Canada-Japan Double Taxation Convention. This revision, among other things, will allow for the mutual exemption of local taxes on international transport operations.

INDIA

- ! Within the framework of the World Trade Organization (WTO), and under agreements reached with Canada and several other countries (the European Union, Japan, Switzerland, Australia and New Zealand), India will phase out import restrictions on a very wide range of products that are of interest to Canadian exporters. These import restrictions generally take the form of quantitative restrictions and outright bans on the import of goods covered by about 2700 different tariff items. The restrictions will be removed over three stages—covering the period April 1997 to March 2003—with the first "batch" of items scheduled to be liberalized at the end of March 1998. India has also committed to phasing out all restrictions on the import of goods covered by the ITA during the first stage, i.e. by March 2000.

EUROPEAN UNION

- ! Canada and the EU signed an Agreement on Customs Co-operation and Mutual Assistance, which will facilitate trade through simplification and harmonization of customs procedures and, will enhance the capacity to deal with violations of customs law.
- ! Signing of the Canada-EU Agreement on Humane Trapping Standards restored secure access to the European market for Canadian fur products. This will contribute to increased employment opportunities in many remote northern regions, notably aboriginal communities.
- ! Conclusion of the Canada-EU MRA on conformity assessment for regulated products in December 1997 will reduce costs and facilitate market access in Europe for Canadian producers of telecommunications terminal equipment, IT equipment, electrical equipment, medical devices, pharmaceuticals and recreational boats.
- ! Canada and the EU have concluded negotiations on an agreement on equivalency of health requirements applicable to trade in animals and animal products, which will improve access to Europe for Canadian exports in this sector.

GLOSSARY OF TERMS

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

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

APEC: Asia Pacific Economic Cooperation forum. APEC comprises 18 countries around the Pacific Rim that seek further Asia Pacific economic co-operation. Members are Australia; Brunei; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; the Philippines; Singapore; Chinese Taipei (Taiwan); Thailand; United States.

Cairns Group: A coalition of fourteen agricultural exporting countries (Australia, New Zealand, Argentina, Brazil, Uruguay, Chile, Colombia, Thailand, Philippines, Indonesia, Malaysia, Fiji, Hungary and Canada) that develops proposals on agriculture during the Uruguay Round.

Canada-EU Action Plan: Signed on December 17, 1996, the Action Plan is designed to strengthen Canada-EU relations and consists of four parts: Economic and Trade Relations, Foreign Policy and Security Issues, Transnational Issues, and Fostering Links.

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

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

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

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

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

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

EFTA: European Free Trade Association. When founded in May 1960, there were 7 members. Currently, there are four (Iceland, Norway, Switzerland, and Liechtenstein) as others joined the European Union.

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

Foreign Direct Investment: The funds committed to a foreign enterprise. The investor may gain partial or total control of the enterprise. An investor who buys 10% or more of the controlling shares of a foreign enterprise makes a direct investment.

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

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

GATS: General Agreement on Trade in Services. The first set of multilaterally-agreed and legally-enforceable rules and disciplines ever negotiated to cover international trade in services.

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

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

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

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

Liberalization: Reductions in tariff and other measures that restrict world trade, unilaterally, bilaterally or multilaterally. Trade liberalization has been the objective of all GATT/WTO trade negotiations as well as of the FTA and NAFTA negotiations.

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

NAFTA: North American Free Trade Agreement, involving Canada, the United States and Mexico, the negotiation of which started in June of 1991. Came into force January 1994.

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

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

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

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

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

Subsidy: An economic benefit granted by a government to producers of goods often to strengthen their competitive position. The subsidy may be direct (a cash grant) or indirect

(low-interest export credits guaranteed by a government agency, for example).

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

Tariff Rate Quota: Two-stage tariff: imports up to the quota level enter at a lower rate of duty; over-quota imports enter at a higher rate.

Transparency: Visibility and clarity of laws and regulations.

Uruguay Round: Multilateral trade negotiations launched in the context of the GATT at Punta del Este, Uruguay, in September 1986, and concluded in Geneva in December 1993. Signed by ministers in Marrakesh, Morocco, in April 1994.

WTO: World Trade Organization. Established on January 1, 1995, to replace the Secretariat of the General Agreement on Tariffs and Trade, it forms the cornerstone of the world trading system.

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