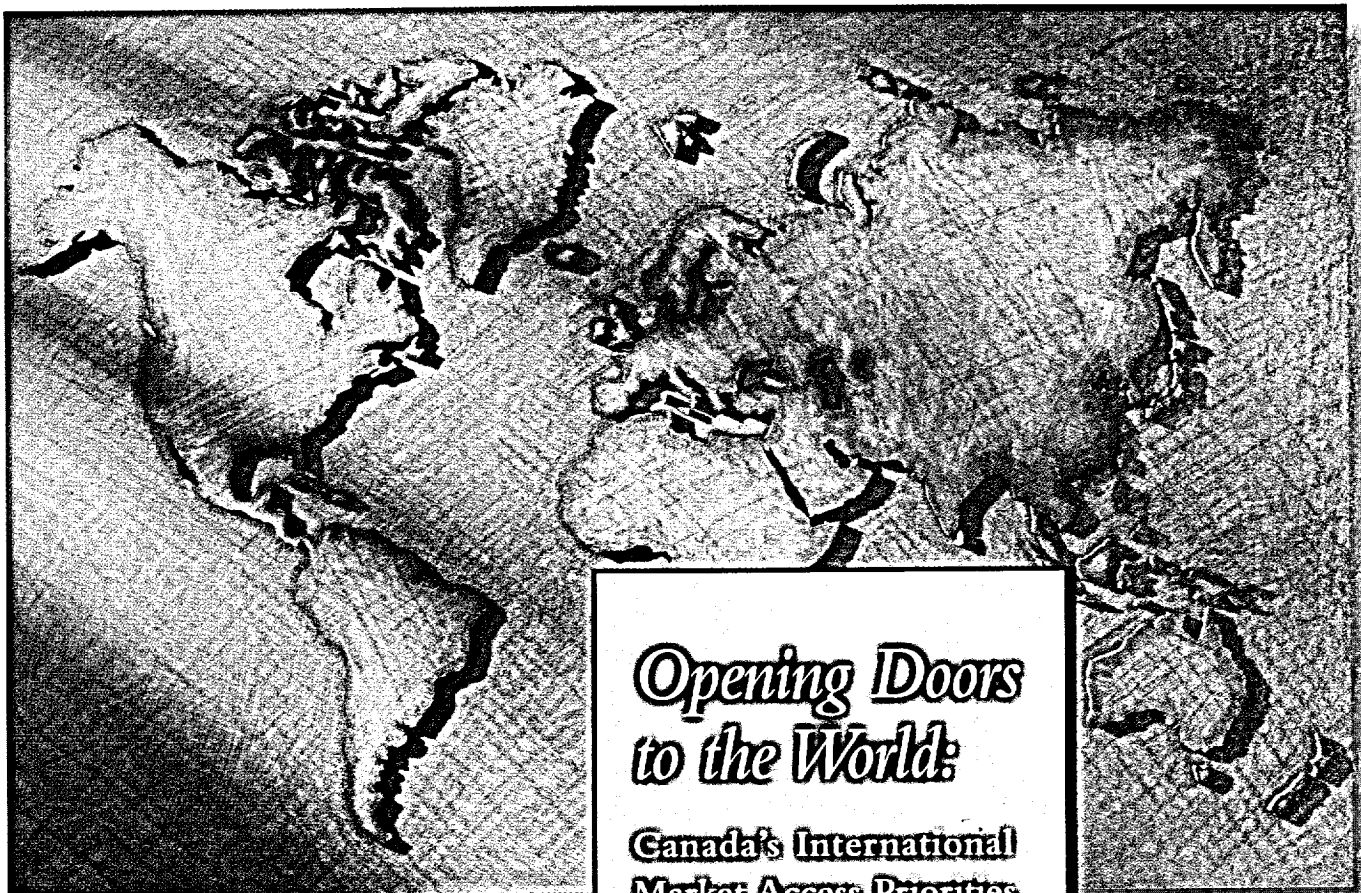




Department of Foreign Affairs
and International Trade

Ministère des Affaires étrangères
et du Commerce international



Opening Doors to the World:

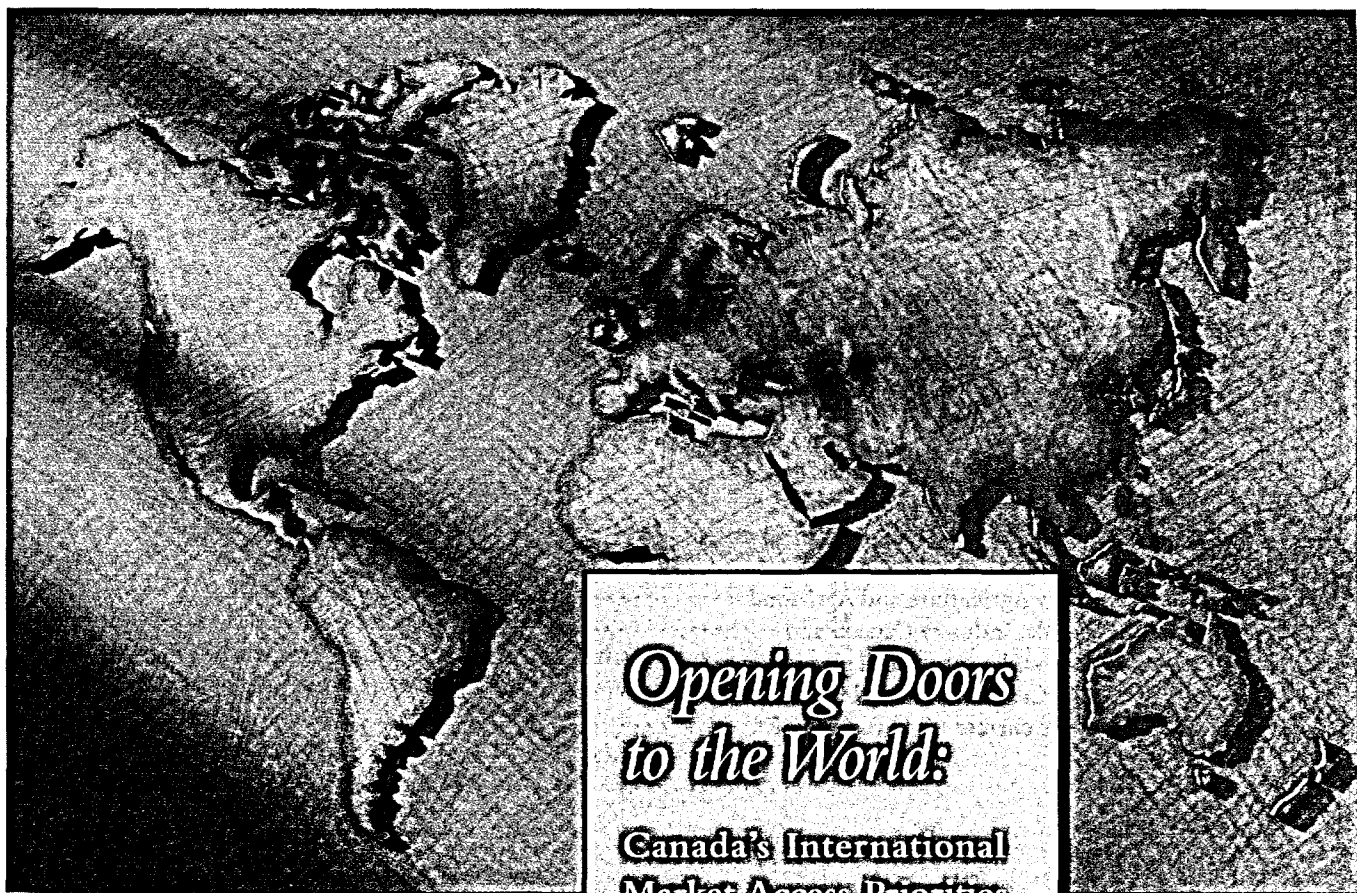
**Canada's International
Market Access Priorities
2001**



Team Canada Inc • Équipe Canada inc



Canada



Opening Doors to the World:

**Canada's International
Market Access Priorities
2001**

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ABOUT THIS DOCUMENT

Opening Doors to the World: Canada's International Market Access Priorities – 2001 outlines the Government's priorities for improving access to foreign markets for Canadian traders and investors through a range of multilateral, regional and bilateral initiatives in 2001. It also presents significant market-opening results from 2000 that will benefit Canadian business. Subjects range from Canada's broad negotiating objectives at the World Trade Organization, to the details of specific bilateral trade irritants. It is not intended as an exhaustive catalogue of Government activities to improve access to foreign markets, nor as a comprehensive inventory of foreign barriers to trade or investment.

The Department of Foreign Affairs and International Trade (DFAIT), and its Embassies and missions abroad, co-ordinated the preparation of this report, with the assistance of other federal government departments (especially Agriculture and Agri-food Canada, Finance Canada, Industry Canada and Natural Resources), as well as provincial governments, and, of course, Canadians doing business abroad. Its contents are current up to the end of February 2001.

Opening Doors to the World: Canada's International Market Access Priorities – 2001 updates and expands on topics presented in the 2000 report which was released by the Minister for International Trade in April 2000. While recognizing the vital importance of the U.S. market, the current approach reflects Canada's broader interests and the importance of work in such forums as the World Trade Organization (WTO) to strengthen the disciplines governing global trade and investment flows.

TABLE OF CONTENTS

<i>Message from the Minister for International Trade</i>	i
--	---

1. Introduction	1
------------------------------	---

2. Getting the International Rules Right:	
The World Trade Organization	22
Improving Access for Trade in Goods	23
Information Technology Agreement	23
Agriculture	23
Technical Barriers to Trade	24
Sanitary and Phytosanitary Measures	26
Trade Remedies	27
Rules of Origin	27
Trade Facilitation	28
Improving Access for Trade in Services	28
Ongoing GATS Negotiations	29
Financial Services	30
Basic Telecommunications Services	31
Professional Services	31
Temporary Entry for Services Providers	31
Issues That Affect Access for Trade in Goods and Services	32
Government Procurement	32
Electronic Commerce	32
Dispute Settlement	32
Accessions to the World Trade Organization	33

3. Investment	35
----------------------------	----

4. Opening Doors to The Americas	39
The North American Free Trade Agreement (NAFTA)	39
United States	42
Mexico	53
Free Trade Area of the Americas (FTAA)	56
Mercosur	57
Chile	62
Caribbean and Central America	64

5. Opening Doors to Europe	67
European Union	67
European Free Trade Association (EFTA)	74
Russian Federation	75
Ukraine	76

6. Opening Doors to Asia Pacific	78
Asia-Pacific Economic Cooperation (APEC)	78
Japan	80
China and Hong Kong	88
Republic of Korea	91
Chinese Taipei (Taiwan)	93
India	95
Australia	98
New Zealand	99
Southeast Asia	100
 7. Opening Doors to Other Key Markets.....	106
Middle East	106
Saudi Arabia	107
South Africa	108
 8. Glossary of Terms.....	110
 9. List of Acronyms.....	114
 10. Canada's International Trade Statistics.....	118

MESSAGE FROM THE MINISTER
FOR INTERNATIONAL TRADE



I am pleased to report that Canada's outstanding performance in the area of international trade continued throughout 2000. Our exports of goods and services rose to a record high of \$473.9 billion in 2000, and we recorded a surplus of \$18.9 billion on our current account balance. Canada continues to rank among the world's leading trading economies. With exports of goods and services now representing 45.6 percent of gross domestic product and trade accounting for one in every three jobs, it is clear that Canada's trade success is directly and positively related to our overall economic growth and prosperity.

It is also clear that improving and securing access to key markets is an important factor in ensuring continued trade expansion. That is why the Government of Canada is so committed to bringing down barriers in key markets and securing predictable access to the world for Canadian traders and investors. Enhanced market access is the path to continued prosperity for Canadians.

With this thought in mind, I am very pleased to present "*Opening Doors to the World: Canada's International Market Access Priorities – 2001*". This annual report, prepared by the Department of Foreign Affairs and International Trade, outlines the federal government's strategy for achieving improved access for goods, services and investment in key foreign markets. The report also highlights significant market-opening results achieved by the Government in 2000 to benefit Canadians and provide new opportunities for Canadian companies in world markets.

As a medium-sized, trade-dependent economy, Canada's current and future economic success depends on open world markets, a stable trading environment, and a means to settle trade disputes based on rules rather than on political or economic might. In 2001, Canada will pursue its objectives through multilateral and regional forums, bilaterally with key trading partners, and through the negotiation of new free trade agreements.

The World Trade Organization remains the cornerstone of Canadian trade policy and the foundation for Canada's relations with its trading partners and our bilateral and regional agreements and initiatives. Canada is actively engaged in the ongoing WTO negotiations on agriculture and services, and will continue its efforts to build confidence in the world trading system and to establish consensus on expanded negotiations.

On April 20-22, 2001, the Prime Minister will host the third Summit of the Americas in Quebec City. A key element of the Summit process is the ongoing negotiation of a Free Trade Area of the Americas (FTAA). As we have for the past two years, Canada will continue to play an active leadership role in the FTAA negotiations, which hold the potential to create the world's largest free trade area – 800 million people and a combined gross domestic product of nearly \$17 trillion. The FTAA would build on Canada's free trade ties with the United States, Mexico and Chile and our expanding links elsewhere in the hemisphere, allowing Canada to take full advantage of emerging hemispheric markets.

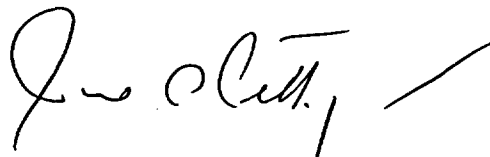
Canada entered into free trade negotiations first with Costa Rica in early 2000, then later in the year with El Salvador, Guatemala, Honduras and Nicaragua, and in early 2001 with the economies of the Caribbean Community. The conclusion of free trade agreements with these countries will reinforce Canada's continued commitment to the hemisphere and help realize the potential for further developing the trade relationship between our countries, particularly with respect to our small and medium-sized businesses.

Canada and the United States share the world's largest and most comprehensive trading relationship. With 86 percent of our merchandise exports destined for this market, representing 33 percent of our gross domestic product, Canada-U.S. trade relations will remain a top priority for the Government. While the vast majority of our trade is dispute-free, we will continue to ensure that the disputes that will inevitably arise are managed carefully. A significant challenge is the management of the softwood lumber issue, where we remain

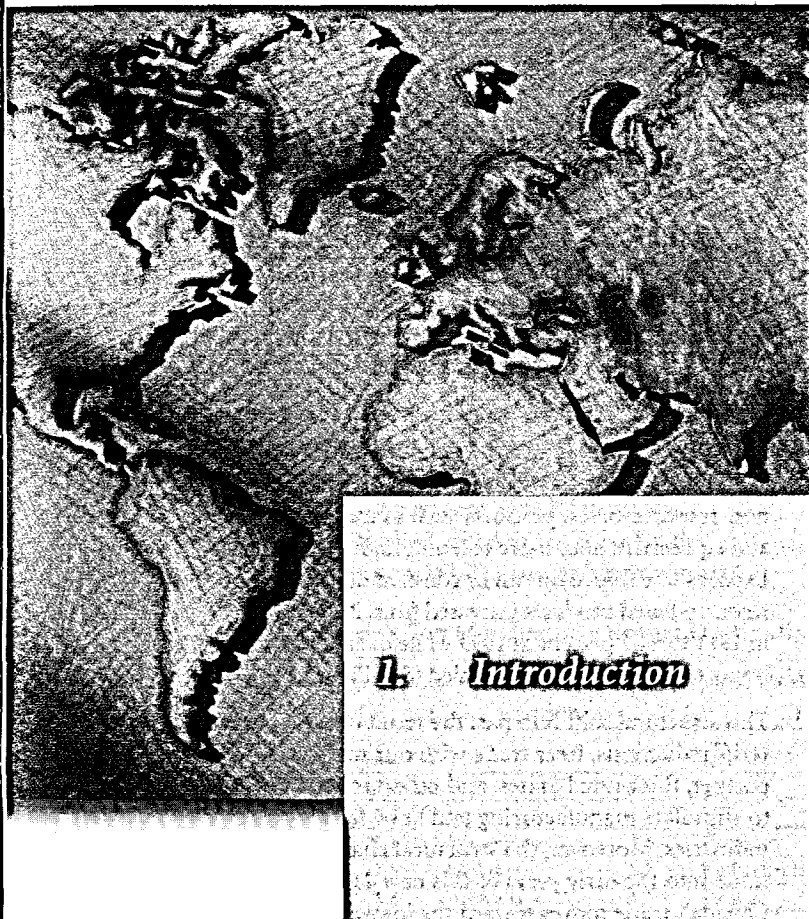
committed to ensuring access to this large, traditional market for Canadian producers. We will also work with the United States and Mexico to reinvigorate the NAFTA and continue to facilitate and enhance trade in these key markets.

In closing, I want to stress that the Government of Canada is committed to maintaining an ongoing dialogue with Canadians on trade issues. We will pursue the priorities outlined in this report in full consultation with Canadians. The Government maintains an extensive program of outreach and consultations with the provinces and territories, the business sector, non-governmental organizations (NGOs), other interest groups and the public. In addition to being a source of information on the Government's actions and intentions on a range of trade issues of importance to Canadians, this report is intended to stimulate thinking and the submission of views by readers.

I would also encourage those interested to visit the Trade Negotiations and Agreements Web site, which provides the most current information on Canada's trade policy agenda. This report and the Web site are two of the key mechanisms that we have developed to encourage you to provide us with feedback on trade issues. I invite you to register your views via the Department of Foreign Affairs and International Trade Web site (www.dfait-maeci.gc.ca) or the Trade Negotiations and Agreements Web site (www.dfait-maeci.gc.ca/tna-nac). By doing so, you join our team and improve our prospects for advancing Canadian interests and ensuring our continued prosperity.



The Honourable Pierre S. Pettigrew



For Canada, the global trading environment remains one of the brightest in decades:

Canadian products and services are in increasing international demand, and trade, capital and technologies are flowing across borders as never before. In fact, over the 1990's, Canada has emerged as an international trading powerhouse.

Indeed, trade has become such a significant part of our economy that one out of every three jobs in this country is now tied to our ability to sell abroad. Canada's exposure to international competition has energized our economy, spurred innovation and created hundreds of thousands of new opportunities for Canadians.

Canada can take pride in its achievement of having become one of the world's largest players with respect to international trade and investment activities. In terms of dollar amount, in 1999, Canada ranked sixth in merchandise exports and imports, twelfth in exports and eighth in imports of commercial services, and eighth in stocks of global direct investment. These achievements attest to the success of our continuing efforts to create a more open global trading environment abroad and improve competitiveness at home. Today, Canada is reaping the prosperity associated with trade and investment as never before, resulting in higher living standards for Canadians.

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.

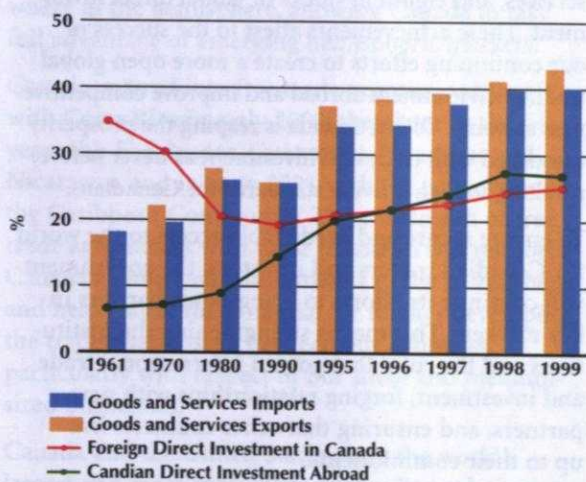
Opening Doors to the World: Canada's International Market Access Priorities – 2001 presents significant market-opening results over the past year and outlines the government's priorities for 2001 to further improve access to foreign markets. The government will pursue these goals multilaterally, through the World Trade Organization (WTO); regionally, in such forums as the North American Free Trade Agreement (NAFTA); the Free Trade Area of the Americas (FTAA) and the Asia-Pacific Economic Cooperation (APEC); and bilaterally, with key partners, principally the United States, the European Union, Japan, and through the negotiation of free trade agreements with the European Free Trade Association (EFTA) countries, Costa Rica and

Central America. Canada is also exploring the prospect of negotiating a free trade agreement with Singapore. In all cases, the government's objective will be to ensure that Canada's traders and investors benefit fully from international trade agreements, and that the word "Canada" becomes synonymous with innovation, dynamism and excellence.

International Trade Trends

The importance of international trade and investment to Canada's economy is often expressed as the ratio of trade and investment to gross domestic product (GDP)¹. For exports of goods and services, the ratio showed a remarkable increase from 17.7 percent in 1961 to 43.0² percent in 1999 (See Figure 1). In the case of imports of goods and services, the ratio jumped over the same period from 18.2 percent in 1961 to 40.2 percent in 1999. Another indication of

Figure 1
Ratio of Canada's Trade and Investment to GDP



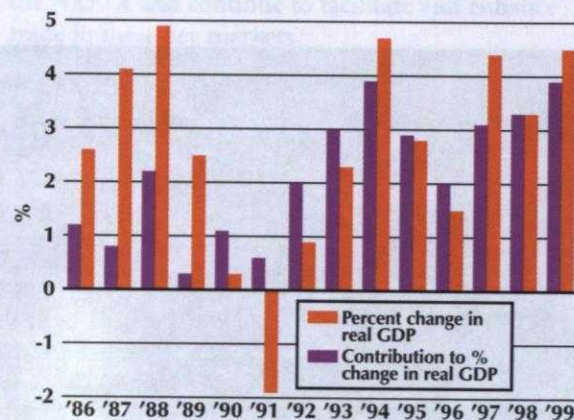
Sources: DFAIT, Statistics Canada

the increasing contribution of exports of goods and services to the Canadian economy is that the growth in exports represented much of the increase in Canada's real gross domestic product over the period 1992 to 1999 (See Figure 2). Reflecting structural adjustments within the global and Canadian economies, the commodity composition and the direction of Canada's trade has undergone substantial

¹ Canada's gross domestic product is the total value of all goods and services produced in Canada.

² Trade figures appearing throughout this document are preliminary figures released by Statistics Canada, February 21, 2001. Unless otherwise specified, all values are in Canadian dollars.

Figure 2
Contribution of Canada's Total Exports to % Change in Real GDP



Sources: DFAIT, Statistics Canada

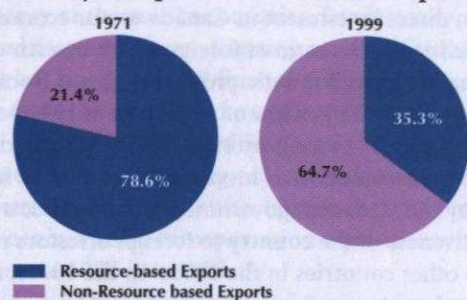
changes. Over a span of three decades, Canada's trade shifted from resource-based sectors toward non-resource-based products such as machinery and equipment and, more recently, high-tech items. Export share (based on real or constant dollars) of non-resource-based products increased from 21.4 percent in 1971 to 64.7 percent in 1999 while their corresponding import share more than doubled (See Figure 3).

This structural shift is in part the result of multilateral tariff reductions, freer trade with our major trading partner, the United States, and other policies geared to stimulate manufacturing and knowledge-intensive industries. Moreover, the structural changes will continue into the early years of this new 21st century, as Canada's trade moves toward the knowledge and high-tech sectors with the growth in services trade also sharing this trend.

The top destination and sources of our trade have also shifted over time. For example, the United States, Japan, the United Kingdom and Germany have remained Canada's most important export destinations. In 1999, several of the other traditional top 10 export destinations have been displaced by the increased export appeal of China, Mexico and South Korea (See Table 1).

The United States has maintained the largest share of Canada's import market over the past 40 years. In that time, Japan, the United Kingdom, Germany and France, and to a lesser extent Italy, remained amongst the top 10 suppliers of Canada, keeping various portions of our import market through the decades. More recently, however, new suppliers have managed to carve

Figure 3
Commodity Composition of Canada's Exports

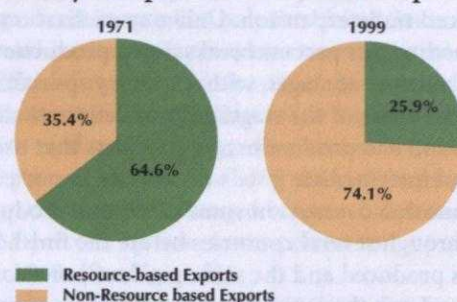


Sources: DFAIT, Statistics Canada

themselves a place as one of our top 10 import sources, namely Mexico, China, Chinese Taipei (Taiwan) and South Korea.

With respect to both exports and imports, Canada has had a long standing relationship with the United States, Japan, the United Kingdom, Germany, France and Italy, our G-7 partners. Our bilateral trade relationship with the United States is by far the most important one. While geographic proximity

Commodity Composition of Canada's Imports



appears to be the most visible factor in this relationship, policy measures such as the Auto Pact in 1965, the FTA in 1989 and NAFTA in 1994 have also played an important role. Recent high and sustained economic growth in both countries, especially the decade long expansion in the United States, has contributed in a major way to the growth of the two-way flow of products and services.

Table 1 Canada's Top Merchandise Export Destination and Import Sources, 1960 – 1999 (customs basis)

Top Ten Export Destinations (number beside the country name is share to total, in percent)

1960		1970		1980		1990		1999	
U.S.	56.4	U.S.	64.8	U.S.	63.3	U.S.	74.9	U.S.	87.1
U.K.	17.2	U.K.	8.9	Japan	5.7	Japan	5.5	Japan	2.4
Japan	3.3	Japan	4.8	U.K.	4.3	U.K.	2.4	U.K.	1.3
W.Germany	3.1	W.Germany	2.3	Germany	2.2	Germany	1.6	China	0.7
Australia	1.9	Netherlands	1.7	Netherlands	1.9	China	1.2	Germany	0.7
France	1.4	Australia	1.2	France	1.3	Netherlands	1.1	South Korea	0.6
Belgium and Luxembourg	1.3	Belgium and Luxembourg	1.1	Italy	1.3	South Korea	1.0	France	0.5
Italy	1.3	Italy	1.1	Belgium and Luxembourg	1.3	France	0.9	Mexico	0.5
Netherlands	1.2	Norway	1.1	Brazil	1.3	Belgium	0.8	Netherlands	0.4
Norway	1.1	France	0.9	China	1.2	Italy	0.8	Italy	0.4

Top Ten Import Sources (number beside the country name is share to total, in percent)

1960		1970		1980		1990		1999	
U.S.	67.3	U.S.	71.1	U.S.	68.5	U.S.	64.5	U.S.	67.2
U.K.	10.7	U.K.	5.3	Japan	4.2	Japan	7.0	Japan	4.7
Venezuela	3.6	Japan	4.2	Saudi Arabia	3.8	U.K.	3.6	Mexico	3.0
W. Germany	2.3	W. Germany	2.7	Venezuela	3.2	Germany	2.8	China	2.8
Japan	2.0	Venezuela	2.4	U.K.	2.8	France	1.8	U.K.	2.6
France	0.9	France	1.1	Germany	2.2	South Korea	1.7	Germany	2.2
Italy	0.8	Australia	1.1	France	1.2	Taiwan	1.6	France	1.7
Belgium and Luxembourg	0.8	Italy	1.0	Italy	0.9	Italy	1.4	Taiwan	1.4
Saudi Arabia	0.7	Sweden	0.8	Taiwan	0.8	Mexico	1.3	Italy	1.1
Jamaica	0.7	Switzerland	0.6	Hong Kong	0.8	Norway	1.2	South Korea	1.1

Sources: DFAIT, Statistics Canada

Canada's pattern of trade also reveals a trend toward globalization of the production processes that has enhanced trade expansion. Unlike specialization by commodity, this process breaks down production into a number of stages, with a country specializing in one or more of the stages of production. It allows one country to produce export products that use raw and intermediate goods or services imported from another country. In some cases, one product goes through several countries before the finished item is produced and the same product can also enter and exit the same country more than once as it moves through the production process. As a result, imports have been growing along with exports in recent years. An associated development that has had a major impact on trade is the rapid growth of company affiliates and subsidiaries whose commercial presence has facilitated trade in goods and services (known as intra-firm trade).

In recent years, the goods and services trade balance has improved as exports have expanded at a faster rate than imports. This trend contributed to Canada registering a surplus on its current account³ in the first half of 2000, a reversal from its historical deficit position.

Investment Trends

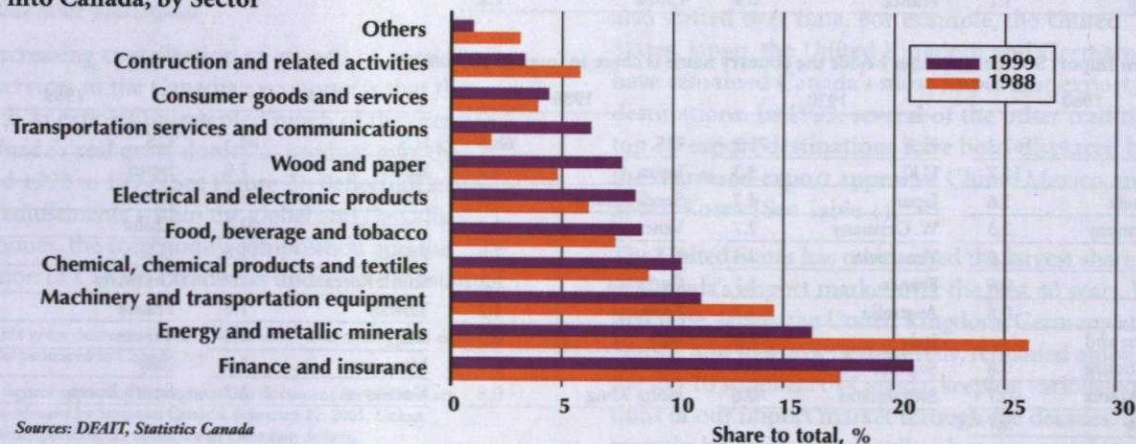
As a conduit to economic growth, two-way investment flows bring concrete benefits to Canada by facilitating and accessing both to markets and to competitive inputs and R&D, which lead to transfer of knowledge, both technical and managerial, and

³ Canada's current account records Canada's transactions with the rest of the world, including exports and imports of goods and services, receipts and payments of investment income and transfers.

to job creation. Investment has continued to grow, but in absolute terms. Unlike trade, the importance of foreign direct investment in Canada to our economy has declined as the ratio of foreign direct investment to Canada's gross domestic product dropped from 35 percent in 1961 to a low of 19 percent in 1990 before recovering to 25 percent by 1999. While this trend captures the evolution of investment policies set in place by the Canadian government, it also reflects the attractiveness of the country to foreign investors relative to other countries in the 1990s. In the 1970s, the Foreign Investment Review Agency (FIRA) was created to limit the high degree of foreign ownership in the Canadian natural resource and manufacturing sectors by requiring that foreign acquisitions and new foreign businesses conveyed significant benefits to Canada. In 1985, FIRA was replaced by Investment Canada within the context of a more liberal foreign investment regime. Investment Canada was also given the task of promoting foreign direct investment. With the Canada-U.S. FTA in 1989, NAFTA in 1994, inward foreign direct investment from Mexico and the United States was further liberalized.

The recovery of foreign direct investment flows in the 1990s has been accompanied by a shift in the industry pattern and sources of foreign investment into Canada. The finance and insurance industries now account for the largest share of inward investment, displacing energy and metallic minerals. The leading sector in previous decades, machinery and transportation equipment industry, is still the third largest sector in terms of share to total inward foreign direct investment, and even though investment has been moving away from this industry toward other industries such as chemicals, food, beverage and tobacco products and electronic and electrical products (See Figure 4).

Figure 4
FDI into Canada, by Sector



The pattern of foreign direct investment also corresponds to the structural shifts taking place within the economy of the source countries. For instance, the United States has been directing much of its investment in Canada toward finance and insurance and away from the energy and metallic minerals industry. Also, Japan which is our third largest investor, used to invest heavily on energy and metallic minerals industries in the early 1980s but has focussed more on machinery and transportation equipment industries since 1987 (See Table 2).

investment, about the same level it was in 1986. Recent trends suggest that among Canada's top sources of foreign direct investment, only the United States has increased its share of inward investment. The role of the United Kingdom, the second largest source of investment into Canada, diminished from 13.1 percent share to total inward foreign direct investment in 1990 to 5.9 percent by 1999. The 1999 share of the remaining top eight countries ranged between 0.8 percent and 2.7 percent, up from 0.1 percent to 1.4 percent in the 1960s (See Figure 5).

Table 2 Top Industry Destination of Foreign Direct Investment in Canada

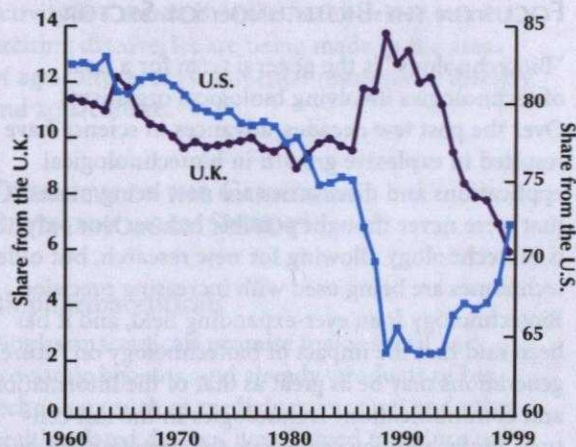
FDI from	1983	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99
U.S.	Energy and Metallic Minerals											Machinery and Transportation Equipment			Finance and Insurance		
U.K.	Finance & Insurance																
EU	Energy and Metallic Minerals													Finance and Insurance			
Japan	Energy and Metallic Minerals				Machinery and Transportation Equipment												
All Countries	Energy and Metallic Minerals													Finance and Insurance			

Sources: DFAIT, Statistics Canada

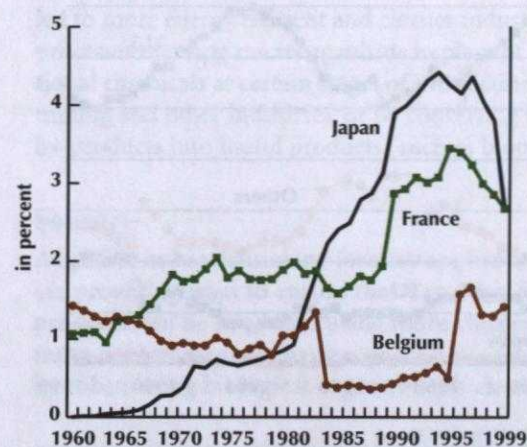
In 1999, 95 percent of Canada's total foreign direct investment was sourced from the top ten countries, among them are the United States, the United Kingdom, Netherlands, France, Switzerland and Japan. As indicated in the figure below, the United States remains the most dominant foreign investor, although it has become somewhat less important since the 1980s. By 1999, however, Canada's total foreign direct investment from the United States was 72.2 percent of overall inward foreign direct

A key development in the past four decades is the rapid expansion of Canadian direct investment abroad (CDIA). As a result, Canada now stands as a net exporter of investment, as the stock of Canadian direct investment abroad surpassed that of inward foreign direct investment in 1996. Much of the recent growth can be attributed in part to mergers and acquisitions of foreign companies by Canadian-based corporations.

Figure 5
Share in Canada's Total FDI



Sources: DFAIT, Statistics Canada



As with inward investment, the composition of Canadian direct investment abroad has also shifted toward finance and insurance industries which accounted for 33 percent of total Canadian direct investment abroad in 1999, up from 15 percent in 1983. During the same period, the share of Canadian direct investment abroad directed to energy and metallic mineral industries dropped significantly to 15 percent by 1999 from 33 percent in 1983 (See Table 3).

In addition to direct investment, the more interest sensitive foreign portfolio investment remains important. By the end of the 20th century, portfolio investment, mostly in Canadian bonds, rose to \$495 billion, while portfolio investment in foreign bonds and stocks was valued at \$164 billion. In particular, Canadian bonds grew dramatically from \$5 billion in 1960 to \$393 billion by 1999.

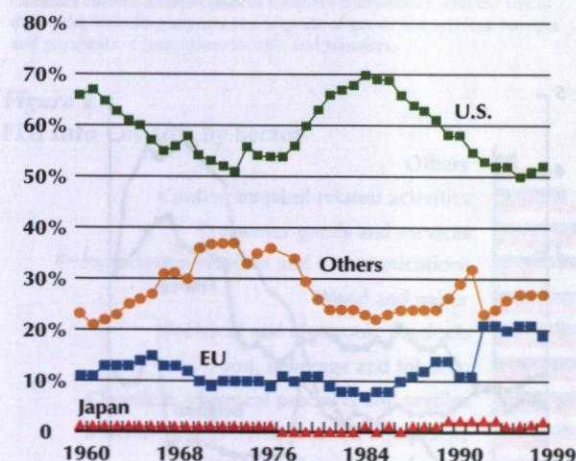
Table 3 Top Industry Destination of Canadian Direct Investment Abroad

CDIA to:	1983	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99
U.S.	Energy and Metallic Minerals						Finance and Insurance										
U.K.	Energy and Metallic Minerals						Finance and Insurance										
EU	Energy and Metallic Minerals						Finance and Insurance										
Japan and other OECD countries	Energy and Metallic Minerals						Finance and Insurance										
All Countries	Energy and Metallic Minerals						Finance and Insurance										

Sources: DFAIT, Statistics Canada

Canadian direct investment abroad by geographic area is more diversified than foreign direct investment. The United States accounted for just over half of total Canadian direct investment abroad in 1999, although its share has declined steadily since 1985 (See Figure 6). Meanwhile, the shift toward the European Union was apparent in the 1990s.

Figure 6
Share to Total CDIA



Sources: DFAIT, Statistics Canada

Expanding Global Opportunities

Clearly, the past has set the foundation for Canada to take even bigger advantage of expanding global opportunities. The 21st century begins on a strong note, as total two-way trade grew by \$103 billion in 2000 compared to 1999, to \$899.9 billion. Investment flows were \$15.5 billion during 2000, an increase of \$91 from the previous year. The direction points toward an expanding new economy spurred by exports, increasingly in value-added and high technology products.

FOCUS ON THE BIOTECHNOLOGY SECTOR

"Biotechnology" is the general term for a host of technologies involving biological organisms. Over the past few decades, advances in science have resulted in explosive growth in biotechnological applications and discoveries are now being made that were never thought possible before. Not only is biotechnology allowing for new research, but older techniques are being used with increasing precision. Biotechnology is an ever-expanding field, and it has been said that the impact of biotechnology on future generations may be as great as that of the information and communications technologies in the last century. Biotechnology represents the development and application of knowledge and techniques in biological

systems, combined with advances in bio-informatics and biochemistry to create innovative processes and products in a number of sectors including health, environment, forestry, agriculture, mining, fisheries and many other allied industries.

A thriving biotechnology industry in the future will be built largely on genomics research, which is the study of genetic information: an organism's genes form its "genome". Knowledge of genomes is required to study disease resistance, or susceptibility in humans, plants, animals or pathogens. International experts agree that genomics will provide new methods for addressing environmental concerns, result in new methods of disease diagnosis, treatment and prevention and in managing natural resource and food supplies. Genomics and bio-informatics technologies and techniques are fundamentally changing the way products and services are being discovered and developed – genomics will allow not only for more accelerated drug development and regulatory review time, but will also improve the efficacy of the drugs. In Budget 2000, the federal government approved \$160 million for large-scale program funding to establish a multidisciplinary centre to co-ordinate Canadian genomic research and development – operating on a cost-recovery basis for industry, while serving as a funding mechanism for Research & Development (R&D) done by non-profit entities. The commitment to excellence in the biotechnology sector will help Canadian firms thrive in a competitive global environment. Already, Canadian research and development firms have established themselves at the forefront of the sector in some promising areas.

While the majority of Canadian biotechnology activity in Canada is in the health sector, some exciting discoveries are being made in the areas of agriculture, environmental restoration, forestry, and aquaculture.

OVERVIEW OF THE CANADIAN BIOTECHNOLOGY SECTORS

Biopharmaceuticals

Biopharmaceuticals promise major social and economic benefits, and already, products of biotechnology such as medicines, vaccines and other health-related devices, have helped to reduce or eradicate many diseases and improve life expectancy.

As one of the world's fastest growing sectors, sales of biopharmaceuticals have grown more than seven-fold over the past decade and should exceed US\$18 billion by 2003. Canadian firms have developed three of the 24 biopharmaceuticals approved for sale on the world market. A January 2000 survey by Canadian Institutes of Health Research indicates that selected Canadian biopharmaceutical firms have more than 400 products in the pipeline. The Canadian biopharmaceutical sector represents 46 percent of the companies, 87 percent⁴ of the R&D and more than \$800 million in sales. It is estimated that 30 to 50 percent of new therapeutics will be biopharmaceutical products.

Agriculture

Agri-food research and development is another strong Canadian biotechnology sector, where 22 percent of the companies, 5 percent of total biotechnology R&D and \$131 million in sales. There are two major ag-biotechnology clusters in Saskatoon and Guelph. Smaller clusters are developing around Quebec City, Montreal, Ottawa, Winnipeg, Calgary and Edmonton. Agri-food biotechnology builds on Canada's traditional agricultural strength by adding high value jobs, products and services.

Environment

Another burgeoning field of innovation is in the area of the environment. Through diligent research, environmental scientists have been discovering ways to use biological organisms to provide early warning of pollution and using plants to "remediate" or to detoxify polluted industrial sites. Other advances have led to more energy efficient and cleaner industrial processes by using microorganisms in place of traditional chemicals at certain stages of production in mining and other industries, or by converting the by-products into useful products (such as bioplastics).

Forestry

Advances in biotechnology forestry applications are providing ways to ensure that Canadian forest products can be produced using more cleaner and more environmentally benign processes – such as by substituting biological organisms for chemicals,

⁴ Based on a Statistics Canada's survey published in 1998. Statistics Canada is currently expanding and updating this survey which will be published in 2001.

using biological organisms in managing waste and determining the most efficient way to produce forest products, such as paper. These are all essential for maintaining the competitiveness of Canada's forest product industries.

Fisheries

In the fishery sector, the use of genetics and biotechnology has assisted in identifying and producing vaccines to control diseases in aquaculture stocks. DNA technology is being applied to define the population structure of commercially important fish and shellfish and to develop molecular markers for stock identification, assisting in enforcement efforts and conservation.

While the number of trade opportunities presented by Canadian biotechnology expertise is increasing, so too are the number of market access issues. The success of Canadian biotechnology products will rely, in part, on a sound regulatory system, both domestically and internationally. International efforts are underway to examine the unique situation of products of biotechnology – especially the most controversial – genetically modified organisms – recognizing the risks, while at the same time, ensuring that benefits can be enjoyed by all. Canada is an active participant in these international efforts. Canada has much to offer to these discussions. As a country that is fortunate to have a strong regulatory system, Canada is often looked to as a model for other countries. The Canadian system is strong and effective; it is flexible enough to address new challenges posed by biotechnology.

The World Trade Organization (WTO)

Biotechnology discussions within the World Trade Organization are confined to the Committee on Sanitary and Phytosanitary Measures (SPS Committee), the Committee on Technical Barriers to Trade (TBT Committee) and the Council for Trade-Related Aspects of Intellectual Property Rights (TRIPs Council). Within the TBT and SPS Committees, the discussion has focussed on notifications that various WTO Members have made with respect to measures and technical regulations regarding genetically modified organisms (GMOs) and whether these measures and technical regulations are consistent with the rights and obligations of the WTO Agreements. These discussions will continue

until more consensus on the issue of GMOs emerges or until WTO jurisprudence emerges from possible trade disputes involving GMOs.

With respect to the WTO TRIPs Agreement, Canada is participating in the built-in review of Article 27.3(b) of the TRIPs Agreement. This provision allows WTO Members to exclude from patentability plants and animals other than micro-organisms (e.g. bacteria, yeast, algae, fungi, cell, etc.), provided that protection for new plant varieties is available (many Members, including Canada, have chosen to adopt the UPOV system for plant variety protection). It also permits WTO Members to exclude from patentability essentially biological processes for the production of plants and animals (e.g. cross-fertilization of plants) other than microbiological processes.

Convention on Biological Diversity (CBD)

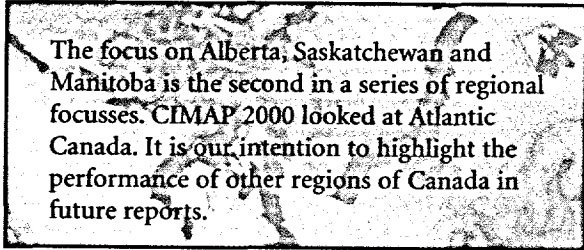
In January 2000, Canada participated in the negotiation of the Cartagena Protocol on Biosafety (CPB). Canada is an active participant in the post-negotiation process, including consultations on signing, ratifying and implementing the Convention on Biological Diversity and intends to sign the Protocol in the near future.

FOCUS ON ALBERTA, SASKATCHEWAN AND MANITOBA

This year, *Canada's International Market Access Priorities* (CIMAP) report, turns its attention to the Prairies and reviews the significance for these provinces – Alberta, Saskatchewan and Manitoba – of opening markets to Canadian products.

All three provinces registered higher economic growth rates in 2000 than in 1999: continuing high oil and gas prices and strong growth in service-provision sectors stimulated increased economic activity in Alberta and Saskatchewan; Saskatchewan benefited from increased output in the agri-food, chemical and electronic products sectors; and, Manitoba realized a strong recovery in the agricultural sector, supported by strong growth in its mining and manufacturing sectors.

Slowdowns and reduced demand in foreign markets contributed to varying degrees both to the slower growth the Prairie provinces experienced in 1999 and to the re-energized growth they recorded in 2000. The influence of events in foreign markets on the three prairie economies varies by province; the varying impacts are attributable to the share of economic activity in each province generated by



The focus on Alberta, Saskatchewan and Manitoba is the second in a series of regional focusses. CIMAP 2000 looked at Atlantic Canada. It is our intention to highlight the performance of other regions of Canada in future reports.

exports and the product composition of goods sold abroad. Exports of goods and services as a percentage of Saskatchewan's gross domestic product remained relatively constant at about 40 percent over the latter half of the 1990s. Saskatchewan's key exports are cereals, fertilizers, mineral fuel oils and oilseeds. Alberta exported a relatively constant 36 percent of gross domestic product over this same period. While oil, gas and other mineral fuels comprised the major share of foreign sales, exports of chemicals and chemical products, wood products, pulp and paper, electrical equipment, and processed food have increased significantly. For Manitoba, the share of exports of goods and services as a percentage of gross domestic product increased during the late 1990s before leveling off at about 30 percent. Manitoba's export profile reflects the highly diversified nature of its economy. Manitoba's leading exports include aircraft parts, wheat, canola seeds/oil, electrical energy, minerals, buses/public transport passenger vehicles, processed potatoes, lumber and newsprint.

The opening of markets under the NAFTA and the WTO has generated new opportunities for domestic producers and services providers. Efforts to open markets continue at the bilateral, regional and multilateral level. The regional focus attempts to set out some important achievements in reducing barriers to exports by manufacturers and services providers in Alberta, Saskatchewan and Manitoba and to identify some of the remaining obstacles that need to be addressed.

ALBERTA

Overview

After growing by an estimated 3.6 percent in 1999, the Alberta economy rebounded in 2000 with approximately 6.5 percent growth, led by a surge in energy sector investment (up by an estimated 37 percent from 1999). Alberta has had the fastest growing economy in Canada over the past five years, with the annual real rate of growth averaging 4.6 percent.

The province consistently has the highest investment per capita among provinces. A total of \$31.3 billion was invested in 1999, an increase of 50 percent since 1994. During the 1994-1999 period, investment in the manufacturing sector more than doubled. In 1999, real business investment grew by an estimated 13.6 percent over 1998. Business investment is projected to remain around current record levels. Almost \$29 billion in major investment projects have been announced or are currently under construction, including oil sands, pipeline, transportation, utility, commercial and real estate projects.

Alberta's economy is now more diversified and less susceptible to volatile commodity price fluctuations than it was in the 1970s and early 1980s. Alberta's manufacturing sector has grown from 6.3 percent of gross domestic product in 1985 to 10.3 percent in 1998. The services sector is up from 53.8 percent to 67.9 percent. Between 1994 and 1999, shipments by manufacturing industry increased 40 percent to \$35.3 billion. In contrast, the energy sector has declined from 37.2 percent of gross domestic product to approximately 21 percent. This relative decline in the energy sector has been mirrored in Alberta's corporate income tax receipts. In 1985-1986, the energy sector contributed 60.5 percent of corporate income tax revenues. By 1998-1999, this had fallen to 9.6 percent. The agriculture sector's share of the economy has remained virtually unchanged since the mid-1980's. A major structural change is also taking place in Alberta's oil sector, as companies shift their investment plans to oil sands from conventional oil properties. Non-conventional oil production is forecast to rise 81 percent from current levels by 2003. It is expected to account for over 60 percent of Alberta's oil production in 2003, compared to an estimated 44 percent in 1999. The increase is led by projects like Suncor's Project

Millennium (due to come on stream in 2002), Syncrude's Aurora mine project, Imperial Oil's Cold Lake expansion and Shell's Muskeg River Project (all due to start production in 2003).

International Trade

Alberta exported \$55.3 billion worth of goods in 2000, an increase of 59.9 percent over 1999. In 1999, total exports of goods and services were \$38.1 billion; this included, \$34.5 billion in goods and \$3.6 billion in services.

The rise in value of Alberta's exports in 2000 was primarily attributable to strong demand and high prices for the province's crude oil, natural gas and related energy products. This success, however, should not overshadow the strong growth in sales experienced by a wide variety of non-energy related exports, particularly telecommunications equipment, wood pulp, wheat and beef.

Alberta commodity exports are classified into three sectors, namely mining, primary agriculture and manufacturing. In 1999, the mining sector accounted for the majority of exports at \$18.7 billion, followed by the manufacturing sector at \$12.7 billion and primary agriculture at \$2.4 billion. Although the oil and gas industry is still number one in terms of export value, manufacturing has become one of the fastest growing sectors in Alberta (See Table 4). For example, the value of manufacturing exports doubled from \$6.6 billion in 1994 to \$12.7 billion in 1999, and real growth for this sector is forecast at 6 percent in 2001.

The key components of Alberta's manufactured exports include chemicals and petrochemicals, electrical and electronics equipment, agri-food products, paper and allied products and wood products industries. Although chemicals and chemical products remained Alberta's largest export sub-sector, and increased 7.2 percent from 1998 to 1999, electrical and electronics industry has become one of the fastest growing manufacturing industries in Alberta. From 1994 to 1999, electronics sector exports increased 227 percent.

Major markets for chemicals and chemical products are the United States, China, Taiwan, and South Korea. Key markets for electrical and electronic equipment include the United States, United Kingdom, Australia, Taiwan and Mexico.

Alberta International and Intergovernmental Relations, working with the Western Centre for Economic Research at the University of Alberta, has undertaken a series of studies that have documented Alberta's export performance since the Canada-U.S. FTA and the NAFTA have come into force (www.iir.gov.ab.ca/iir/trade/documents/1988-99_WCER_NAFTA_REPORT.pdf).

Market Access Issues

On July 29, 1999, the Government of Alberta announced its agricultural trade negotiating positions (www.gov.ab.ca/acn/199907/7952.html). These positions, developed after consultation with industry in Alberta and other parts of western Canada, have been forwarded to the federal government.

In September 2000, the Alberta government released proposals for reform of anti-dumping measures in agricultural trade (www.iir.gov.ab.ca/iir/trade/media/ag_prod.pdf).

A number of studies undertaken by the provincial government have revealed that Alberta exporters continually encounter a number of barriers in various international markets:

- In June 2000, the Alberta government released a study identifying barriers to Alberta businesses exporting their services; the study focussed on specific sectors such as engineering, computer services, oil & gas services and environmental services (www.gov.ab.ca/acn/200006/9325.html). The United States led all other countries as the market where respondents have an interest in pursuing business opportunities, followed by Brazil, Argentina, Mexico and Chile. The majority of market access barriers encountered fell within the category of unfavourable domestic regulations such as "buy local" policies (also a problem for trade in goods), and requirements such as having to hire local citizens as a precondition to contracting was reported as a problem by many respondents. A lack of regulatory transparency is also a problem in some countries. Inconsistent application of temporary entry rules is a problem continually faced by business travelers to the United States.

Table 4 Alberta Exports by Industry, 1995 to 1999

	(\$ millions)					Percent Change 1998-1999
	1995	1996	1997	1998	1999	
Primary Agriculture	2,877.7	3,399.1	3,272.8	2,941.9	2,392.2	-18.7%
Total Mining	15,016.2	18,037.4	19,107.2	16,074.9	18,727.2	16.5%
Oil, Gas, Sulphur	14,167.7	17,469.7	18,536.6	15,524.3	18,128.4	16.8%
Other	848.5	567.7	570.6	550.6	598.8	8.7%
Manufacturing	8,697.2	9,793.3	10,681.9	11,407.5	12,748.3	11.8%
Chemicals and Chemical Products	2,988.7	2,809.7	2,781.4	2,384.0	2,555.0	7.2%
Clothing and Textiles	25.1	24.2	32.0	34.8	32.4	-6.8%
Electrical/Electronic Equipment	872.3	1,227.1	1,240.5	1,623.7	2,081.4	28.2%
Fabricated Metal Products	147.4	180.2	187.5	217.9	241.1	10.6%
Food, Feed, Beverages	1,119.7	1,295.5	1,593.3	1,761.5	1,994.6	13.2%
Furniture and Allied Products	115.2	192.0	254.6	300.9	338.8	12.6%
Machinery (excl. Electric/Transport)	375.0	526.8	586.3	873.3	614.5	-29.6%
Non-Metallic Mineral Products	54.2	66.5	85.3	98.9	135.5	37.0%
Paper and Allied Products	1,422.8	1,019.2	1,302.8	1,449.9	1,565.8	8.0%
Plastics	70.7	94.5	123.5	139.9	175.0	25.1%
Primary Metal Products	372.8	556.5	599.7	502.0	444.4	-11.5%
Refined Petroleum and Coal Products	306.9	461.7	393.9	327.9	416.3	26.9%
Transportation Equipment	124.4	170.8	157.9	224.8	377.6	67.9%
Wood Products	486.2	904.4	1,017.6	1,112.0	1,436.0	29.1%
Other	215.7	264.1	325.6	356.0	340.1	-4.5%
Other Exports	293.4	468.6	419.7	558.4	653.3	17.0%
Total Goods Exports	26,884.4	31,698.4	33,481.6	30,982.8	34,521.0	11.4%
Tourism	907.1	1,098.0	969.7	1,197.2	1,306.3	9.1%
Other Services (estimates)	1,579.8	1,829.3	1,951.6	2,110.0	2,265.7	7.4%
Total Services Exports (estimates)	2,486.9	2,927.3	2,921.3	3,307.2	3,572.0	8.0%
Total Exports	29,371.3	34,625.7	36,402.9	34,290.0	38,093.0	11.1%

Source: Alberta International Trade Review, 1999

- In November 2000, the Alberta government released a study (www.gov.ab.ca/acn/200011/10019.html) on non-tariff barriers faced by Alberta exporters. Customs regulations in particular are seen as a major problem for many firms. Specific problems cited include overwhelming amounts of paperwork and unclear rules. Exporters also encounter problems in determining technical regulations and standards.

- Alberta International and Intergovernmental Relations, working with the Western Centre for Economic Research at the University of Alberta, has attempted to identify the most significant barriers to Alberta's exports of agricultural, resource, and industrial goods (www.bus.ualberta.ca/CIBS-WCER/WCER/wcer.htm see Bulletins 61 and 62 for the detailed results). Despite successive rounds of multilateral negotiations, a number of products exported by Alberta continue to face high tariffs and significant non-tariff barriers to trade in key markets.

- Finally, a number of transportation-related issues are of interest to Alberta. Harmonization of truck weights and dimension regulations would facilitate a more efficient flow of commercial vehicles between the province, the United States and Mexico. Development of efficient border crossing facilities to improve the flow of cross border flow of goods by commercial carriers is necessary. The Canada Customs and Revenue Agency (CCRA) and the General Services Administration from the United States have plans to upgrade and expand the border crossing facility at Coutts/Sweetgrass. Use of Information Technology System and pre-clearance procedures at border crossings will be important elements of a more efficient system to meet future growth.

As is the case across the country, security of access to the U.S. market is critical to Alberta. U.S. attempts to pursue actions aimed at restricting imports of Canadian products is a major concern. Efforts must continue through various forums available to provincial, state, and national governments to ensure that issues are resolved before they become actual disputes.

SASKATCHEWAN

Overview

After registering gross domestic product growth of only 1.1 percent in 1999, Saskatchewan's economy is expected to record significantly higher growth in 2000. The increase is attributable to three factors: increased activity in the mineral fuels and mining services sectors spurred by higher oil prices; an acceleration in manufacturing output, led by the electronic products sector; and strong performances by the transportation, storage and communications sectors, as well as in the wholesale trade sector, as a result of the banner agricultural crop in 1999-2000.

While the province's economy remains susceptible to fluctuations in the demand and prices for agriculture products, mineral fuels and raw materials, the province hopes to mitigate this through further diversification, which will be achieved through the continued growth and development of its key sectors. These key growth sectors include: value-added agriculture, mining, forestry, energy, information technology and tourism.

Saskatchewan, with 44 percent of Canada's cultivated farmland, generates about 20 percent of Canada's

agricultural production, and is Canada's largest grain producer, accounting for about 50 percent of the country's wheat production. In recent years, however, Saskatchewan's primary agriculture sector, which contributes about \$2 billion annually to the province's gross domestic product, has become more diversified in terms of livestock and new crop production, particularly specialty crops. The province's food-processing sector is growing rapidly and Saskatoon has become a world-class player with respect to agricultural biotechnology.

Major extractive industries have developed around Saskatchewan's rich deposits of potash, uranium, oil and natural gas; this, in turn, has provided new opportunities for manufacturing and services industries. With 23 percent of the province covered by commercial forest, Saskatchewan has also become a small, but competitive, producer of pulp, paper, lumber and value-added wood products for both domestic and international markets.

While agriculture and extractive industries continue to play an important part in the provincial economy, services now account for 60 percent of Saskatchewan's gross domestic product and over 70 percent of total employment. The province's telecommunications and information technology sector, which consists of national firms headquartered in Regina (ISM and GDS & Associates), branch operations of other national companies (LGS, CGI and Systemhouse), and an array of small to mid-size local firms, is expanding. Perhaps surprisingly, the film sector is one of the fastest growing industries in the province, expanding eight-fold over the last seven years and generating revenues of \$50 million in 1998.

Improving the environment for innovation is a provincial priority and research and development activity is playing an increasingly important role in shaping Saskatchewan's future in the new economy. In the energy sector, Regina is home to a new world-class centre for heavy oil and horizontal drilling technology development. The Canadian Light Source Synchrotron, which is under construction in Saskatoon, will be one of the country's major scientific facilities. Given that the facility, which will be used for basic and industrial research in a number of fields, will be one of only a handful in the world, it should attract both scientists and companies in the pharmaceuticals, medical diagnosis and treatment and biotechnology sectors to Saskatchewan.

International Trade

Saskatchewan is a trade-dependent province, with exports of goods and services accounting for 40 percent of its gross domestic product. In 1999, Saskatchewan's total exports of goods and services to other countries were approximately \$10.7 billion, with exports of goods accounting for just under \$10 billion. The province's leading merchandise exports include: cereals, fertilizers (potash), mineral fuel oils, oilseeds, specialty crops, fibre optics, lumber and wood pulp. Top export markets are the United States, Japan and China.

While primary agriculture and mineral commodities continue to account for most of Saskatchewan's sales abroad, the composition of goods exports is evolving, with specialty crops such as lentils, peas and canary seed, processed food products, manufactured goods

and energy products taking on increasingly significant roles. As Table 5 indicates, several manufacturing sectors have experienced double digit annual increases in exports from 1995 to 1999. For example, electrical and electronic products exports increased about 45 percent per year from 1995 to 1999, while food and beverage products increased 26 percent per year over the same period. The province's exports of services are also growing in importance.

The province is attempting to increase its value-added exports by 20 percent by 2005. Key sectors that have been targeted by the province as holding opportunities for future success in international markets include: value-added agriculture products, forestry, mining, energy, tourism and culture, information technology and telecommunications, value-added processing and manufacturing, biotechnology and environmental industries.

Table 5 Saskatchewan Exports Outside of Canada (\$millions) by Industry and Total, 1995 to 1999

Industry	1995	1996	1997	1998	1999	Average Annual Change 1995-1999
Primary Agriculture	4,005.17	4,146.97	4,968.85	4,152.25	3,630.71	-1.4%
Mining Industries	1539.16	1364.67	1606.95	1898.44	2004.88	7.5%
Crude Petroleum and Natural Gas Industries	1682.47	1855.38	1912.69	1428.76	1647.46	0.8%
Other Primary Industries	1.59	2.19	3.38	5.53	7.52	47.9%
Total Manufacturing	1,601.54	1,903.89	2,264.70	2,358.17	2,524.79	12.3%
Chemical and Chemical Products	381.07	382.06	413.59	342.88	386.98	1.1%
Clothing and Textiles	0.79	2.59	2.93	6.17	6.27	88.7%
Electrical and Electronic Products	92.41	171.96	172.01	295.43	367.64	45.6%
Fabricated Metal Products (except Machinery and Transportation)	9.47	18.73	29.25	24.07	41.84	52.5%
Food and Beverage	219.37	428.89	482.11	481.08	476.20	26.7%
Furniture and Fixtures	0.32	0.50	1.59	2.12	2.75	84.1%
Machinery (except Electrical Machinery)	163.14	207.61	221.63	191.24	190.10	4.9%
Non-Metallic Mineral Products	3.66	3.82	5.53	6.29	11.48	36.3%
Paper and Allied Products	399.19	270.88	412.61	444.18	460.80	7.9%
Plastic Products	9.25	15.86	16.49	14.58	23.21	30.7%
Primary Metal	121.28	90.98	82.70	132.21	92.45	-1.1%
Refined Petroleum and Coal Products	89.63	119.63	136.29	97.02	104.44	6.6%
Transportation Equipment	37.78	44.24	54.21	58.59	54.03	10.0%
Wood	54.49	130.28	211.69	233.40	278.35	57.8%
Other manufacturing	19.68	15.87	22.08	28.90	28.25	12.1%
Total Saskatchewan Exports Outside Canada	8,882.00	9,349.00	10,832.00	9,944.00	9,948.00	3.2%

Source: Strategis, Industry Canada

Market Access Issues

Saskatchewan, as a highly trade dependent province with an increasingly diversified economy, seeks greater and more secure market access for a full range of export products, including agricultural and resource commodities, processed agricultural products and manufactured goods.

A successful outcome of the WTO agriculture negotiations is important to the future economic viability of Saskatchewan agricultural exporters. We need to see movement by our large international competitors, such as the United States and the European Union, in terms of significant reductions in the levels of support provided to their domestic agricultural producers, to ensure that the province's highly efficient producers can compete with them on level ground. In terms of the WTO negotiations on services, Saskatchewan is working with commercial services providers to identify specific market access barriers that could be addressed in these negotiations.

Given the importance of maintaining access to the United States as an export market, bilateral Canada-U.S. trade issues are often of concern to Saskatchewan. Issues that need to be addressed include ongoing challenges by the United States affecting key agricultural and agri-food products of export interest, including wheat and cattle. Current or proposed actions, including legislative measures by certain U.S. border states such as North Dakota and Montana, continue to have the potential to severely disrupt bilateral Canada-U.S. trade. Effective management of trade relations with the United States is required at both the national and provincial-state level to ensure the orderly two-way trade of goods and services between Canada and the United States and to minimize the potential for disputes.

MANITOBA

Overview

Manitoba has the most diversified economy of the Prairie provinces. This diversification, including an increased focus on value-added production, has mitigated the impact on the provincial economy of fluctuations in commodity prices and demand for imports in foreign markets. Steady performances across several sectors including manufacturing,

information technology and telecommunications services, fashion and apparel, transportation, health care products and services and aerospace helped the province record gross domestic product growth of 3.0 percent in 1999, despite poor results in many primary industries.

With significant production in over 15 distinct industries, the manufacturing sector is a major contributor to Manitoba's economy (See Table 6). Manufacturing employment has experienced strong and steady growth over the past decade and the value of manufacturing shipments has increased 67.5 percent since 1991. Manitoba is North America's largest manufacturer of buses, producing both intercity and urban buses, and is home to Canada's largest furniture manufacturer. Manitoba's aerospace sector is the third largest in Canada, with about 5,000 employees and over \$1 billion in sales in 1999, much of it exported. Over 100 apparel firms contribute to making Manitoba Canada's third-largest apparel manufacturing centre. Food and beverage industries, with strong linkages to Manitoba's agriculture sector, shipped \$2.5 billion of products last year to countries around the world.

Manitoba also has a strong financial services sector, which includes: Canada's largest insurance company, Great-West Life Assurance Co.; Canada's largest mutual fund company, Investors Group; and, one of the fastest growing wealth management companies in Canada, Assante Corporation. It also has a significant presence in multimedia, including Can-West Global Communications.

Plans to further diversify the economy through the continued development of its biotechnology, nutraceutical and information technology and telecommunications (ICT) sectors is a provincial priority. From four companies in 1984, Manitoba's health care goods sector has grown to encompass over 110 firms, generating combined revenues of \$330 million and employing 2,560 people with expertise in areas such as biotechnology, medical research and medical/assistive device production. The province is also now home to 80 call centres, and there is a shift of call centre operations to Manitoba from other parts of Canada and the United States to take advantage of its strategic advantages, which include its central time zone, competitive telecommunication rates and supply of bilingual and multilingual labour.

Table 6 Manufacturing Shipments, Manitoba: 1996 to 1999 (\$millions)

Industry Group	1996	1997	1998	1999
Transportation Equipment	1,211,169	1,369,568	1,728,384	1,762,747
Textile Products	54,126	76,507	75,858	80,176
Wood	388,150	434,499	476,897	498,451
Plastics	282,014	292,002	282,229	321,399
Furniture and Fixtures	295,970	319,145	352,440	361,359
Machinery	1,170,665	1,379,527	1,231,955	850,002
Fabricated Metal Products	504,957	556,165	626,704	592,770
Food	1,897,642	2,162,192	2,287,651	2,397,580
Non-Metallic Metals	162,962	157,108	175,166	192,829
Chemical Products	406,567	427,670	457,434	505,063
Unpublished Industries	132,687	139,727	128,616	124,324
Paper and Allied Products	396,479	364,685	396,053	391,385
Printing and Publishing	568,238	632,850	674,891	697,231
Clothing	325,509	327,184	409,908	400,133
Misc. Manufacturing	117,630	124,462	139,192	137,697
Primary Metals	536,379	622,461	616,199	549,561
Beverages	159,559	202,366	187,758	204,943
Electrical and Electronic	360,772	410,881	365,878	291,305
Total All Industries	8,971,475	9,998,999	10,613,213	10,358,955

Source: Statistics Canada

International Trade

Manitoba experienced significant growth in exports during the nineties. Exports have increased from approximately \$3 billion in 1991 to just over \$8 billion in 1999, with much of this growth attributable to an expansion of value-added exports.

The composition of Manitoba's exports reflects the diversity of its economy. Manitoba's leading exports include aircraft parts, wheat, canola seeds/oil, electrical energy, minerals, buses/public transport passenger vehicles, processed potatoes, lumber and newsprint.

The United States continues to be the most important market for Manitoba exports. Of total exports of \$8.1 billion in 1999, 81.4 percent went to the United States. After the United States, Manitoba's leading export markets include Japan, China and Hong Kong, Mexico and the European Union. Manitoba also aspires to improve trade with Chile, Argentina, Brazil and parts of the Central America and the Caribbean.

Manitoba's total exports of manufactures, energy and minerals to the United States exceeded its total exports of agricultural goods in 1999, although its exports were led by agri-food exports. Manitoba's agri-food exports to the United States in 1999 were \$1.2 billion, including a record high for exports of

processed food products (by value). Processed and semi-processed exports represented 81 percent of Manitoba's agri-food exports to the United States in 1999. Overall, the United States accounted for more than one-half of all Manitoba's agri-food exports (by value).

Manitoba's agriculture and agri-food sector is changing, however, and is rapidly becoming more diversified with more value-added processing. For example, Manitoba is fast becoming the leading producer of potatoes in Canada. When completed, J.R. Simplot Company's new \$120 million processing plant in Portage la Prairie (announced on December 12, 2000) will result in Manitoba potato acreage expanding to an estimated 95 to 100 thousand acres. The bulk of this production is intended for export, particularly the North American market as well as Asia. It is also expected that there will be sufficient by-product to support 25,000 head beef feedlot.

Manitoba's pork industry continues to show steady growth as demand for pork products in Asia increases steadily. While Manitoba is the third largest pig producer in the country (production in 2001 is forecast to be 5.6 million pigs), it is the second largest pork exporter. Between 1994 and 1999, pork exports have increased in value from \$79 million to \$214 million. China is becoming an increasingly significant market for pork by-products.

Manitoba ranks as the bean capital of Canada, with over 235 thousand acres seeded in 2000. Added to this is a further 155 thousand acres of field peas and 35 thousand acres of lentils. The province's strong commitment to pulse production is built on an aggressive export market development initiative.

The contribution of value-added food products to Manitoba agri-food export figures is expected to continue to increase. The provincial nutraceutical and functional food industry, for example, continues to explore new and innovative high value business and market opportunities for provincially-produced crops. Manitoba's biotechnology sector continues to gain momentum as agriculture responds to environmental issues and market-driven food safety issues.

Mining, which is Manitoba's second largest primary resource industry, accounts for about 15 percent of the province's annual exports and represents 3.8 percent of the province's gross domestic product. The mining industry directly employs approximately 4,500 people, most of whom reside in the northern regions of the province; the average income of workers is about \$60,000. The principle minerals and metals produced in Manitoba are nickel, copper, zinc, gold, tantalum and cesium.

Market Access Issues

Not surprisingly, given the significance and diversity of Manitoba's trade with the United States and the importance of maintaining access to the U.S. market, Manitoba's market access concerns typically relate to bilateral Canada-U.S. trade issues. These include: international trade disputes affecting the Canada-U.S. border, such as the entry-exit control mechanism considered by U.S. Immigration under U.S. Section 110 of the U.S. Illegal Immigration Reform and Immigrant Responsibility Act; the U.S. Buy American content requirements under various American programs which restrict Manitoba exports of buses and steel-related products; the imposition by the United States of restrictions on trade in key agricultural and agri-food products, such as sugar, wheat, hogs, R-Calf petition on cattle; and actions taken by U.S. states as a method of protest, such as South Dakota's border blockade of Canadian truck traffic.

In particular, Manitoba has concerns that U.S. state initiatives such as North Dakota's Bill 1276 and Bill 1287, and the North Dakota Wheat Commission's Section 301 petition against the Canadian Wheat Board do not negatively affect market access for Manitoba agri-food exports.

Manitoba's agriculture and agri-food sector requires market access reflecting the diversity and value-added aspects of agriculture in Manitoba.

SUCCESS STORIES

Alberta's Success Stories

Calgary's Global Thermoelectric Inc. was a Canada Export Award Winner for 1998. It is the world's leading supplier of thermoelectric generators for remote power applications, accounting for more than 95 percent of thermoelectric generators sold world-wide. In 1999, Global had sales of more than \$27 million, a substantial increase from \$13 million in 1998. The company employs approximately 5,500 people, primarily in Canada, the United States and South America.

SMART Technologies, a Calgary-based company, and the recipient of a Canada Export Award in 2000. By developing products that enhance shared spaces, the company is transforming the way organizations and companies meet, teach, train and present information. With the creation of interactive whiteboards, mobile multimedia cabinets and optical whiteboard capture systems, SMART has become an industry leader with its Roomware™ products, serving educational institutions and corporations around the globe. The company began in 1987 with a staff of two and is now employing more than 280 people in Canada and the United States with further rapid growth anticipated in the coming years. Universities across Canada have supplied SMART with a pool of talented staff for functions such as engineering, design, software development and marketing. SMART operates in more than 47 countries, with 94 percent of its sales derived from exports. Between 1996 and 1999, SMART's export sales were up by 326 percent.

Cipher Systems has been selected as Alberta's fastest growing company in 1999 by *Alberta Venture Magazine* (January/February 2000 edition). Cipher's products and related services cover such areas as

enterprise resource planning, customer relationship management, electronic commerce and Year 2000 readiness. The privately owned company reported revenues of \$7 million in fiscal 1999 (ended July 31, 1999), up from \$4.8 million in 1998. Cipher employs 55 people.

Mecca Media Group (MMG), an Edmonton-based 3-D simulations company founded in 1996. Mecca was recently named by *Alberta Venture Magazine* (January/February 2000 edition), the third fastest growing company in Alberta. The company is dedicated to the production of quality interactive multimedia training materials through use of innovative and progressive design tools and technology. Mecca has quietly expanded from two founders to more than 50 employees, capturing a projected \$5 million in sales for 1999-2000 and clients like Bombardier Aerospace and NATO Flying Training Canada, a National Defence initiative.

Fortius Natural Nutrition, a Calgary-based business, manufactures and distributes nutraceuticals and dietary supplements for both human and animal consumption. The company, which first hit the market with only two products, had 32 available by the fall of 1999. In 1998, Fortius Natural Nutrition's sales hit \$921,208, a 396 percent increase over the previous year which earned its founders the Young Entrepreneur Award for Alberta.

Saskatchewan's Success Stories

Schulte Industries Ltd. is a manufacturer of a diverse line of equipment for the agricultural, industrial and commercial sectors, and was a Canada Export Award Winner for 1999. Based in Englefeld, Saskatchewan, the company has been manufacturing equipment since 1942 and exporting since 1967. Schulte exports 65 percent of its total sales, up from about 50 percent seven years ago. The United States is by far Schulte's largest export market, but it also has significant sales to Australia, Iceland, Costa Rica, Jamaica, Germany, Sweden, Norway, France, Italy and Argentina. The company employs 100 people, up from 70 seven years ago.

Massload Technologies, a Saskatoon-based company, manufactures a full line of industry-standard, legal-for-trade loadcells – weight-sensing component in electronic scales – for industrial and agricultural applications. In fact, an estimated 60 to 70 percent of all truck scales in Canada use

Massload loadcells. During the Team Canada 1998 trade mission, Massload Technologies signed a \$200,000 contract in Mexico which was worth about \$1 million in revenue – for 1999 alone. With an established dealer network throughout Canada and worldwide, the company employs close to 50 people.

Hitachi Canadian Industries Ltd. recently held the grand opening of its new 75,000 square foot building. The building will be the final assembly site for the company's H25 gas turbines, six of which will be delivered to SaskPower in 2001 as part of a modernization of the Queen Elizabeth Power Plant. The assembling of the 60-tonne turbines will create approximately 20-person years of employment. Hitachi has hired 65 people since April 1999, bringing its workforce up to 260.

Legault Manufacturing of Swift Current is actively exploring new and unique markets for its Peacock Foam. The foam, made from biodegradable animal fat, comes pre-mixed in a pressurized tank and is used mainly by farmers to help prevent skips and overlaps when they work their fields. Between one and two percent is sold as fake snow for movies, and is shipped to Los Angeles by a Calgary special effects company. When Drew Barrymore was in Saskatchewan filming *Spare Parts*, Legault was called in to make snow banks for the Indian Head Tree Farm. The company currently sells through more than 300 stores in Canada and 31 representatives as well as a U.S. company in the mid-western States. Legault Manufacturing was recently nominated for business of the year in Swift Current.

Ecklund Drive Thru Gates of Broadview started with a simple invention to make farming and ranching just a little bit easier. Although many types of drive-through gates were already on the market, Gary Ecklund invented a system that was portable, gentle on the front and sides of farm vehicles and capable of keeping animals at a safe distance. He has even picked up a few key phrases in other languages to allow for conversation with buyers as far away as Japan, Sweden, Australia, Chile, Argentina, Uruguay and many parts of the United States. This international exposure has helped expand the company's market. The company is now focussing on North American trade shows that have proved to be the most effective venue for sales. The World Dairy Expo in Madison, Wisconsin has been a particularly successful trade show for his product.

Manitoba's Success Stories

Winnipeg-based Dominion Veterinary Laboratories was a Canada Export Award Winner for 1999. The company is Western Canada's largest manufacturer and distributor of veterinary pharmaceuticals and instruments. Exports accounted for more than 60 percent of Dominion's pharmaceutical sales in 1998-1999. Of the exports, \$3.5 million went to the United States and \$400 000 to the Middle East. Exports have grown very rapidly recently, from only \$25,000 in 1994-1995 (all to the Middle East) to the current level of about \$4 million. The company has 30 employees on staff.

Standard Aero, a Winnipeg-based company, was a Canada Export Award Winner for 1998. The company is one of the largest independent gas turbine engine repair and overhaul companies in the world. With locations throughout Canada, the United States, Mexico, Europe and the Pacific Rim, and with customers in over 80 nations worldwide, Standard has grown into a formidable presence in the international gas turbine engine industry. Since 1993, Standard Aero's sales increased nearly 300 percent to \$327 million in 1997, with exports accounting for 80 percent. The company had sales close to \$400 million in 1998 with its workforce more than doubling to over 1,500 employees.

The Arctic Group, a company based in Winnipeg, is No. 18 on Canada's Hottest Startups list of *PROFIT*, The Magazine for Canadian Entrepreneurs, with 1,289 percent growth over two years, from \$5.3 million in 1997 to \$74.2 million in 1999. The Arctic Group manufactures and distributes ice to retail, industrial and commercial customers, and produces about 2,700 tonnes of ice per day. Founded in March 1996, the Arctic Group went public in April, 1997. Since then, it has completed 37 acquisitions throughout Canada and the United States. The company went from 40 employees in 1997 to 400 in 1999.

Cangene Corporation, a Winnipeg-based biotechnology company, is a world leader in the development, manufacture, and distribution of specialty hyperimmune plasma and biotechnology products for international markets. In 1998 and again in 1999, the company has been named to Deloitte & Touche's prestigious Canadian Technology Fast 50 Program, a ranking of the 50 fastest growing technology companies in Canada. Cangene Corporation reached 668 percent revenue growth over the last

five years. Total sales for the quarter ending April 30, 2000 were of \$11.7 million, up \$1.5 million or 14 percent over last year's third quarter. The company has 300 employees on staff.

CanTalk Canada Inc., a Winnipeg-based company that is fifth on Canada's Hottest Startups list of *PROFIT*, The Magazine for Canadian Entrepreneurs, offers rapid, on-demand, over-the-phone language interpretation and fax translation: "value-add" services, to help customers open up new global markets, break down communications and cultural barriers and improve customer relations. Today, CanTalk's 150 employees manage more than 300,000 calls a month, offering services in 93 languages to 160 countries (translation of some 45 languages is available 24 hours a day, seven days a week). Its 1999 sales revenues soared to \$3.1 million, up 4,735 percent from 1997.

MARKET ACCESS AND INTERNATIONAL BUSINESS DEVELOPMENT

Capitalizing on improved market access is a vital element of the federal government's jobs and growth strategy. The federal government, in partnership with other levels of government and the private sector, has put in place integrated trade and investment promotion programs and services to ensure that Canadian companies can take full advantage of international business opportunities created by the various bilateral and multilateral market opening initiatives.

At the core of this partnership is Team Canada Inc, a "virtual" trade network of 23 federal departments and agencies, whose international business development programs and services are accessible to Canadian companies through a single window via: the Web site <http://www.exportsource.ca> or by calling at 1-888-811-1119 or in person through the regional offices of the 23 member departments and agencies throughout the country.

Team Canada Inc has been strengthened through closer integration of the international business development programs and services of its 23 member departments and agencies. Regional Trade Networks have been established in every province. These comprise representatives from the federal and provincial governments as well as local public and private sector institutions involved in international business

development. Their role is to ensure that Team Canada Inc programs and services are tailored to the specific needs of the exporter community across Canada and that its resources are targeted to the priorities of the regions. Team Canada Inc's strategy and initiatives aimed at increasing the number of Canadian exporters and supporting their efforts in foreign markets are presented in a three-year business plan.

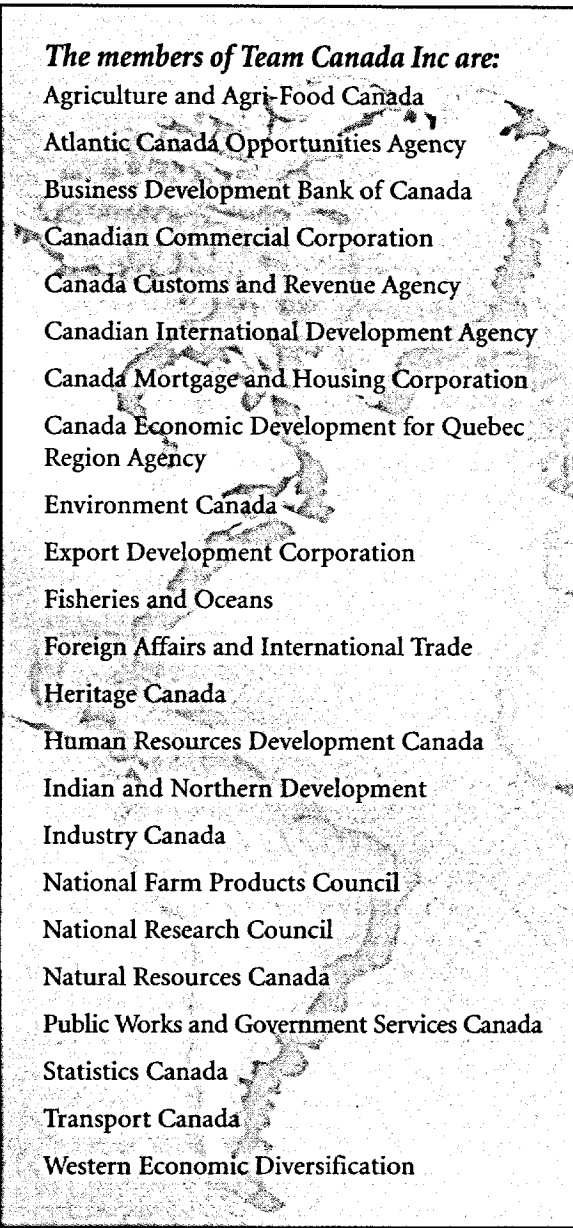
One of Team Canada Inc's key objectives is to increase Canada's export base, with particular emphasis on categories of business that have been under-represented in international markets. Small and medium-sized enterprises (SMEs), particularly those owned by Aboriginals, women and youth, are encouraged to take advantage of government programs and initiatives. On recent Team Canada missions led by the Prime Minister, 70-80 percent of participants were SMEs. The proportion of women participating in the 1999 Team Canada mission to Japan was 19 percent, while young entrepreneurs accounted for over 11 percent and Aboriginal business people 2 percent – the highest participation ever recorded for these groups.

In order to further our aims for attracting foreign direct investment, responsibility for investment promotion has been consolidated under a strengthened Investment Partnership Canada (IPC). IPC is a joint venture among federal departments to help support the 1996 federal investment strategy to:

- target multinational enterprises in priority sectors in key global markets;
- enhance the marketing of Canada's "brand image";
- systematically address investor concerns about Canada's business climate; and
- forge a new partnership among Team Canada players.

As well, the Program for Export Market Development (PEMD)-Investment, a \$5 million annual fund to facilitate the participation of communities in collaborative Team Canada efforts to attract and retain foreign direct investment is now in its second full year of operation. The program has provided support to more than 240 projects.

The members of Team Canada Inc are:



Agriculture and Agri-Food Canada
 Atlantic Canada Opportunities Agency
 Business Development Bank of Canada
 Canadian Commercial Corporation
 Canada Customs and Revenue Agency
 Canadian International Development Agency
 Canada Mortgage and Housing Corporation
 Canada Economic Development for Quebec Region Agency
 Environment Canada
 Export Development Corporation
 Fisheries and Oceans
 Foreign Affairs and International Trade
 Heritage Canada
 Human Resources Development Canada
 Indian and Northern Development
 Industry Canada
 National Farm Products Council
 National Research Council
 Natural Resources Canada
 Public Works and Government Services Canada
 Statistics Canada
 Transport Canada
 Western Economic Diversification

Both the Export Development Corporation (EDC) and the Canadian Commercial Corporation (CCC) are re-aligning their programs and services to meet the export financing needs of small and medium-sized companies. Almost 90 percent of the Export Development Corporation clients are small and medium-sized companies. This community will remain a priority for Export Development Corporation's attention as it strives to increase its customer base. A 10 percent growth rate in total SME clients served is expected for 2001. Export Development Corporation's two other priorities are: diversifying exporters into higher risk developing markets; and building partnerships with other financial intermediaries in Canada to increase Canada's overall export support capacity.

Almost 80 percent of Canadian Commercial Corporation clients are small and medium-sized enterprises. These companies report that Canadian Commercial Corporation support is instrumental in overcoming the financial, process and credibility constraints they face when trying to break into new markets.

The Department of Foreign Affairs and International Trade (DFAIT) continues to rebuild its human resources abroad to better serve the needs of an ever increasing clientele with more diverse and complex requirements for market intelligence and facilitation services. Twelve new Trade Commissioner positions were created at diplomatic missions abroad last year to enhance our capability to promote exports and attract investment and new technologies and to help Canadian suppliers and investors get the most out of market access openings.

The Trade Commissioner Service's *New Approach to Serving Canadian Business Abroad* aims at creating a more results-driven, client-focussed organization. The new approach is now standard client service policy, designed to better manage and focus the workload of trade officers abroad. The aim is to achieve more effective service and increased client outcomes and satisfaction. Extensive consultations with a large cross-section of business and partner-clients in the public sector, including two client surveys in 1999-2000, have been conducted with a view to examining the overall performance of the Trade Commissioner Service from the perspective of clients and find out what improvements are required to better respond to their needs.

In 2000, clients have expressed a relatively high 78 percent rate of overall satisfaction with the performance of the Trade Commissioner Service while underlining areas for improvement. These include the need to reduce service inconsistency between posts and to increase business acumen among front line employees of the Department's posts abroad. Continued refinements of the New Approach will emphasize optimization of our human resources and electronic tools abroad and will focus on training and skills development for our resources abroad commensurate with our clients' expectations. As well, an effective electronic delivery system of our services will be introduced.

In response to priority needs identified by clients themselves, the Trade Commissioner Service now delivers six core services from over 130 posts abroad: market prospects; key contacts search; visit information; face-to-face briefing; local company information; and troubleshooting. In addition, posts also now partner with Canadian organizers under terms of the best practice Trade Commissioner Service Business Mission Agreement with a view to making trade missions into target markets more effective. Non-core services such as foreign language translation and business events management are now referred to third parties identified by posts in the target market to assist clients for a fee. More information on these and other services can be found at www.infoexport.gc.ca To reinforce its accountability to taxpayers, the Trade Commissioner Service also welcomes feedback, comments or suggestions from clients. These can be communicated by calling the following toll free dedicated feedback: 1-888-306-9991.

WE'D LIKE TO HEAR FROM CANADIANS DOING BUSINESS ABROAD

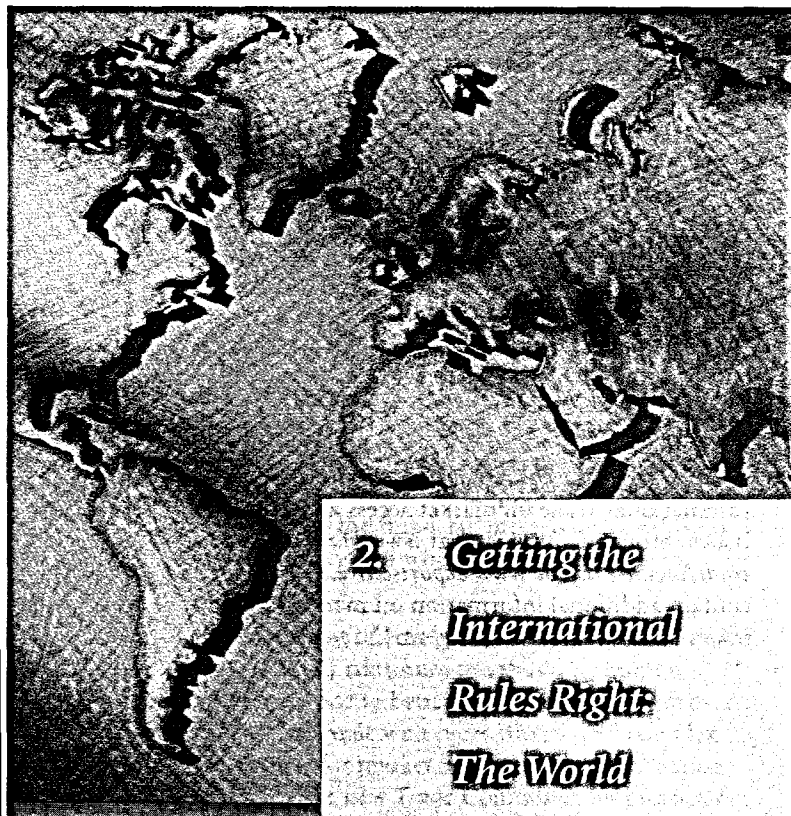
The Department of Foreign Affairs and International Trade consults Canadians on market access issues and international business development through a variety of means. For instance, the Trade Commissioner Service has regular meetings with national, regional and sectoral industry and trade associations, as well as with provinces, to seek their views on and improve the delivery of its programs and services. Moreover, several trade promotional initiatives of the department are undertaken jointly with industry and trade associations.

In view of the government's strong commitment to ensure that all Canadians continue to have input into Canada's overall trade agenda, the Department of Foreign Affairs and International Trade has established broad-based consultations with all interested Canadians to identify Canada's trade policy objectives. The Sectoral Advisory Groups on International Trade (SAGIT) are one of the mechanisms the Government of Canada has to receive trade policy input. Canadians are encouraged to use the Department of Foreign Affairs and International Trade "Trade Negotiations and Agreements" Web site (www.dfait-maeci.gc.ca/tna-nac/) on which updated information on Canada's trade policy agenda is posted and input is sought.

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

"Foreign Trade and Investment Barriers Alert"
Department of Foreign Affairs and
International Trade
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Fax: (613) 992-6002

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



2. Getting the International Rules Right: The World Trade Organization

As a medium-sized, trade dependent economy, Canada's current and future prosperity depends on open world markets, a stable trading environment, and a means to settle trade disputes based on rules rather than political or economic might. Canada's membership in the World Trade Organization (WTO) helps us to achieve these objectives. The 141 member countries of the WTO oversee the administration and functioning of multilateral trade agreements and help to maintain the rules governing world trade. The WTO remains the cornerstone of Canadian trade policy and the foundation for Canada's relations with its trading partners and for Canada's bilateral and regional agreements and initiatives.

Canada is also active in other multilateral forums that influence and guide the international trade policy agenda. We participate actively in the meetings of the G-7/G-8 major economies; the Quadrilateral (United States, European Union, Japan and Canada) Trade Ministers; the Organization for Economic Cooperation and Development (OECD); the Free Trade Area of the Americas (FTAA) negotiations; the Asia-Pacific Economic Cooperation (APEC) forum; and United Nations (UN) economic institutions and agencies. Our participation in these bodies and in informal trade ministerial meetings helps us to shape consensus on trade issues of importance to Canada.

In Canada, the government maintains an extensive program of outreach and consultations with the provinces and territories, the business sector, non-governmental organizations (NGOs), other interest groups, and the public. The government also maintains a Web site (www.dfait-maeci.gc.ca/tna-nac) that provides information on trade policy issues and invites public comments on negotiating priorities and objectives.

Looking Ahead

The launch of expanded balanced and sufficiently broad-based trade negotiations at the World Trade Organization (WTO) is key to ensuring a healthy, open and forward-looking global trading system that meets the needs of all. While many countries, including Canada, have called for new trade talks to begin by the end of 2001, agreement has not yet been reached on either the timing for a launch or the scope of a future negotiating agenda.

Over the coming year, Canada will continue its efforts to build confidence in the world trading system and to establish consensus on expanded negotiations by:

- advancing the WTO Director General's Four-Point Confidence Building Package to ensure that the benefits of trade agreements reach developing and least developed countries; and strengthening our dialogue with leading developed and developing nations on next steps;
- continuing work on the current negotiations in agriculture and services and, building on progress in these sectors, helping to forge consensus among WTO Members on expanding negotiations to include new areas. For some new areas, work programs may be required to help build a better understanding of complex issues before Members decide whether to negotiate in these sectors.
- promoting increased coherence in international trade and sustainable development policies, including through improved co-ordination between the World Trade Organization and the World Bank, International Monetary Fund, the International Labour Organization, the United Nations Environmental Programme, the UN Development Programme and various other multilateral and regional institutions; and
- demonstrating, across a range of international and regional forums (including the UN, OECD, APEC, Summit of the Americas process, and others), the benefits of liberalized trade in the context of good economic governance as a key element of sustainable development.

In addition to pursuing these objectives in the World Trade Organization and elsewhere, Canada is committed to a strategy of targeted regional and bilateral free trade agreements that are complementary to the multilateral trading system. Such strategic agreements can both contribute to the development of common rules and standards to govern international trade and build momentum and capacity for trade liberalization at a global level. As more and more countries are now beginning to pursue such regional and bilateral arrangements, it is incumbent upon all parties to ensure that these agreements are fully supportive and consistent with WTO principles.

IMPROVING ACCESS FOR TRADE IN GOODS

Information Technology Agreement

The WTO Information Technology Agreement (ITA), signed in December 1996, required participants to eliminate customs duties and other duties and charges on a wide range of information technology (IT) products by 2000. Canada and 54 other countries – which together produce over 93 percent of world trade in this sector – have joined the Information Technology Agreement. During 2000, Cyprus, Jordan, Oman and Slovenia became signatories to the Agreement, and it is expected that some additional WTO Members will join in 2001. As a matter of course, we are asking that countries acceding to the World Trade Organization join the Information Technology Agreement.

The Agreement mandates further efforts to expand the product coverage, a process known as "ITA II". In that context, a list of possible additional products, based on Members' proposals, has been under discussion, but no agreement has been reached on its adoption. The draft list covers a wide range of products, including, for example: machinery and equipment for manufacturing printed circuit boards; selected radar and navigational aid equipment; and certain inputs for information technology manufacturing. Canada has actively supported this initiative and will continue to support efforts to reach a consensus on expanding the product coverage.

The Information Technology Agreement also provides for the examination of non-tariff measures (NTMs). The ITA Committee agreed in November 2000 to adopt a formal work program to identify and examine NTMs having "undue trade-distorting effects", and to aim for some conclusions to be drawn from this work by November 2001. In this connection, Canada will continue to promote the examination of import licensing policies and procedures, and other ITA Members have indicated that they will also want to discuss other issues such as standards and conformity assessment.

Agriculture

Global annual trade for agricultural products is in the order of US\$500 billion. Canada strives to

ensure that market access and subsidy commitments negotiated during the Uruguay Round are fully implemented through our participation in the monitoring process of the WTO's Committee on Agriculture. This process will continue throughout 2001. Canada's objective is to strengthen the rules-based multilateral trading system for agriculture and to secure binding commitments to reduce support and protection, in order to realize a fair and market oriented agricultural trading system. Common rules that apply to all countries are important to enhance Canada's access to world markets, not only for bulk agricultural commodities, which accounts for 27 percent of our agri-food exports, but also for the consumer-oriented and intermediate products that now contribute, respectively, 50 percent and 23 percent of our agri-food exports. Commitments to reduce support and protection will ensure a more level playing field so that Canadian producers can compete on their comparative advantage, not against foreign treasuries.

The Uruguay Round Agreement on Agriculture provided a mandate for WTO Members to start new agricultural negotiations in 2000. The negotiations are taking place in special sessions of the WTO Committee on Agriculture, whose Members have agreed on a work program for the first phase of the negotiations from March 2000 to March 2001. To date, some 32 negotiating proposals or submissions have been discussed during meetings in June, September and November 2000 and February 2001, prior to a stock-taking to conclude the first phase of the negotiations in March 2001.

In the negotiations, Canada is pursuing the objectives set out in the initial negotiating position announced on August 19, 1999 by Minister Pettigrew and Agriculture and Agri-Food Minister Lyle Vanclief. Canada has submitted proposals on market access and domestic support, and has joined the Cairns Group in submitting proposals consistent with its initial negotiating position on domestic support, export competition and export restrictions and taxes. In the agriculture negotiations, Canada will be pursuing:

- the elimination of all export subsidies as quickly as possible, and the development of rules to ensure that export credits, certain types of food

aid or other forms of export assistance do not circumvent export subsidy commitments;

- the maximum possible reduction, or elimination, of trade-distorting domestic support, and an overall cap on all forms of domestic support;
- real and substantial improvements in market access for all agriculture and food products through a variety of approaches; and
- new disciplines on export restrictions and taxes.

The key themes underlying Canada's initial negotiating position are: to level the international playing field; to maintain Canada's ability to continue orderly marketing systems such as supply management and the Canadian Wheat Board; to secure greater market access for value-added products, and to develop clear, enforceable trade rules applying equally to all countries. The negotiating position was developed through an extensive consultation process with the provinces, the agri-food industry and civil society. As the negotiations proceed, the government continues this dialogue with Canadians.

Technical Barriers to Trade

Canada's objective is to ensure that standards and regulatory measures which exist in other WTO Member economies relating to goods are put in place to meet legitimate objectives and do not unjustifiably discriminate against Canadian products⁵. Such 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.

Throughout the country chapters of this document, description of specific measures by individual countries that affect Canadian exports will be provided as well as outlines on what the Canadian government is doing to address such measures.

⁵ Legitimate objectives include human, plant, and animal life and health, human safety, prevention of deceptive practices, national security requirements, and the environment.

GETTING THE INTERNATIONAL RULES RIGHT: THE WORLD TRADE ORGANIZATION

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 the right to adopt and apply mandatory technical regulations (i.e. to regulate), as long as these do not restrict international trade more than is necessary to achieve a legitimate objective. TBT-related measures are subject to WTO rights and obligations including dispute settlement provisions.

Canada promotes wide acceptance of and adherence to the Technical Barriers to Trade Agreement, and its Code of Good Practice which applies to voluntary standards. Canada also participates in the activities of a large number of international standardizing bodies, including the International Organization for Standardization (ISO). Canada was among the first countries to develop the necessary infrastructure for Canadian companies to adopt ISO 14000 environmental management system standards, thus facilitating our exports by meeting the requirements of our foreign customers.

The issue of precaution in regulation and its intersection with trade is becoming an increasingly important issue in a large number of areas of interest to Canada. Exercising a science-based application of precaution is pervasive throughout Canada's regulatory regime, and is commonly applied for protecting the health, social, economic, and environmental interests of our citizens, as well as our international reputation for safe high quality products and services. However, the terms "precautionary approach"⁶, or the "precautionary principle" have emerged in recent years, which can take different forms both domestically and internationally, based on the specific context, and for this reason, it has been open to misunderstanding and misuse. It has already been invoked in an attempt to justify trade-distorting measures, such as the beef hormones dispute with the European Union, and in ways that undermine a science-based approach to regulation. It is Canada's position that the precautionary approach should be based on an agreed understanding, including science-based risk assessment, and

should not be susceptible to abuse or arbitrary decision-making. Moreover, in Canada, legal advice indicates that we do not consider the "precautionary principle" to be a rule of customary international law. Canada will work to ensure that there is a clear and coherent Canadian understanding on the definition and operation of the precautionary approach/principle both at home and internationally, and ensure that our rights related to international trade, including those defined under the auspices of the WTO Agreements, are respected by our trading partners.

Under the WTO Technical Barriers to Trade Agreement, Canada will continue to press for the removal of unnecessary or inappropriate regulatory, standards and conformity assessment based trade barriers, thus maintaining or enhancing market access and lowering costs to producers and exporters. We will also work to improve transparency, promote regulatory reform and good regulatory practice by WTO Members, align or harmonize standards internationally and with trading partners, and, if appropriate, negotiate mutual recognition agreements (MRAs) on conformity assessment. On this point, Canada has developed a policy approach to MRAs that assesses proposals on a case by case basis and includes full consultation with federal and provincial regulatory and trade officials, and stakeholders including industry.

Canada is an active participant in the ongoing work program of the WTO Committee on Technical Barriers to Trade and was a full and active participant in the second Technical Barriers to Trade Triennial Review in 2000, which provided Canada with an opportunity to work toward further implementation of the agreement internationally. Canada's participation facilitated further clarification, transparency, and implementation of the various obligations and rights stipulated in the Technical Barriers to Trade Agreement, which will reduce technical barriers to trade among Canada's trading partners and will facilitate the flow of Canadian goods to other countries. In addition, the Triennial Review also provided Canada with an opportunity to enhance and strengthen the multilateral discussions on specific issues of importance to Canadian producers, exporters and governments. As a result, Canada was able to encourage the international community to address and strengthen their approach in areas such as defining of international standards based on their process of

⁶ The context for the precautionary approach/principle as a distinct element of a science-based risk management framework is the existence of both significant scientific uncertainty and the risk of serious or irreversible harm.

development, labelling, good regulatory practice, conformity assessment procedures, and technical assistance to developing countries. Canada expects that the discussion on these issues in the Technical Barriers to Trade Committee (as well as other WTO forums) over the next two years will result in a better understanding of their impact on the trade in goods and ultimately lead to principles and/or better understanding related to these issues enhancing Canadian exporters' efficient and effective access to markets overseas.

Sanitary and Phytosanitary Measures

The WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures elaborates on countries' rights to apply measures necessary to protect human, animal and plant life or health, balanced with an obligation to base measures on scientific evidence. Where such evidence is insufficient, measures can be adopted on an interim basis until additional scientific information is obtained to allow a more objective assessment of risk.

The SPS Agreement has been in force since 1995 and is working reasonably well. Canada's position has been that there is no need to enter into further negotiations on the Agreement at this time, a position which is shared by most WTO Members.

The Agreement establishes the Committee on Sanitary and Phytosanitary responsible for the operation and implementation of the Agreement. The Committee generally meets three times a year. Canada continues to be an active participant in the Committee meetings.

Among its activities, the Committee has provided a useful forum for addressing SPS-related issues without resorting to formal dispute settlement procedures. Indeed, since 1995, 75 bilateral issues have been brought before and addressed by the Committee. In the past year, Canada has raised its concerns in the Committee regarding the European Union's proposed measures to treat wood packaging material, and India's ban on Canadian bovine semen imports.

One of the most significant benefits of the Agreement has been increased transparency with respect to SPS measures. Through the notification procedures in the Agreement, Members are now more aware of measures that are being proposed by

other Members and have the opportunity to comment at an early stage on the impact that the proposed measure could have on trade. Canada has provided comments on a number of a SPS notifications by other WTO Members, often with positive results in avoiding trade problems.

Of note, after five years of negotiations, the SPS Committee this year adopted the guidelines to further the practical implementation of Article 5.5. of the Agreement. These guidelines are designed to assist national regulatory officials to avoid arbitrary or unjustifiable distinctions in the level of protection from risks to life and health they determine to be appropriate in different situations.

Over the past year, the SPS Committee has continued to focus its efforts on implementation concerns of developing countries. In particular the Committee addressed the provisions of the Agreement relating to special and differential treatment and equivalence with a view to making them more meaningful for developing countries. The Committee has also undertaken a review on how technical assistance can be delivered in a more co-ordinated and meaningful fashion. In these discussions, Canada has indicated that well co-ordinated technical assistance will provide the most meaningful results in assisting developing countries to fully take advantage of their rights, and comply with their obligations under the SPS Agreement.

The Agreement has also had some success in attracting attention to and promoting the development and use of international standards.

Biotechnology and GM Labelling

Over the past year, several countries have opted to respond to consumer concerns over the use of genetically modified organisms (GMOs) in food by implementing a mandatory labelling regime to indicate the method of production. The use of labelling to indicate health and safety concerns is a legitimate objective, and Canada supports labelling to convey this sort of important information to consumers. However, Canada is concerned over the increased use of the mandatory method of production labelling when there is no health and safety reason. The use of mandatory labelling to indicate the process and production method (when it does not pertain to the characteristics of a product) could be used to discriminate against "like products" and

GETTING THE INTERNATIONAL RULES RIGHT: THE WORLD TRADE ORGANIZATION

could represent a technical barrier to trade. Non-discrimination is a principle enshrined in both the GATT and the WTO Agreements.

It is important to note that the issue of mandatory method of production labelling is not limited to foods derived from biotechnology. Mandatory method of production labelling could have very serious implications for other Canadian industries, including manufacturing, mining, forestry and fisheries. Canadian industry, consumers and producers have recognized the need to provide more information to consumers, as well. Through the Canadian General Standards Board, these groups are elaborating a voluntary standard which would provide a framework for the voluntary labelling of "foods obtained through or not obtained through biotechnology". Voluntary standards do not represent technical barriers to trade, in the same way that regulations, which are compulsory, do. Canada has been promoting this approach with our trading partners, such as Japan, Korea, Brazil, Australia and the European Union, and will continue to do so. Along with this approach, Canada will continue to ensure that labelling requirements are practical and do not pose unnecessary obstacles to trade.

Trade Remedies

The pursuit of more specific disciplines as well as improved transparency and clarity in the use of trade remedy measures by its trading partners are priorities for Canada. These objectives were the basis of Canada's support for new multilateral negotiations in the area of anti-dumping and subsidies/countervail. The importance of this objective continues to be evident as non-traditional users of trade remedies continue to initiate and conduct investigations. Canada continues to monitor and assist Canadian exporters involved in investigations of Canadian exports, analyse changes in the trade remedy laws and practices of Canada's most important trading partners, and make representations as appropriate in specific investigations. Regarding the latter, the Canadian government was active with respect to a U.S. anti-dumping duty investigation involving sodium sulphate from Canada, one U.S. and two Chilean safeguard investigations involving agricultural products, a U.S. Section 301 investigation involving the Canadian Wheat Board and several U.S. reviews of anti-dumping and countervailing duty orders in place on imports from Canada.

Canada continues to contribute to the work of the WTO Committees on Subsidies, Anti-Dumping Practices, and Safeguards to ensure that all Members administer their trade remedy laws in a WTO-consistent manner. Canada continues to work in the context of the WTO Agreement on Subsidies and Countervailing Measures as well as the Committee on Agriculture to ensure appropriate implementation and possible expansion of the subsidy disciplines negotiated in the Uruguay Round. As well, Canada participates as a third party in WTO dispute settlement proceedings involving issues of importance to Canada. In this context, Canada participated as a third party in WTO proceedings regarding the U.S. Foreign Sales Corporation, Japan's challenge of a U.S. anti-dumping duty determination on steel imports from Japan, the U.S. safeguard action on wheat gluten and the U.S. 'Byrd Amendment'.

Rules of Origin

The WTO Agreement on Rules of Origin established a work program to develop common rules of origin for several purposes involving non-preferential trade. In the development of such rules, Canada's objective is threefold: to achieve common rules that will provide greater transparency and certainty for traders; to prevent countries from using rules of origin to impair market access; and to have rules that are technically proficient, reflecting the global nature of production and sourcing of goods and materials.

Although the work program was originally slated for completion in July 1998, it has been extended due to the technical complexities which have prevented several countries from reaching agreement on rules for all products. Under the 2000 work program established by the Committee on Rules of Origin, significant progress was made in key areas, including advancing the overall architecture of the harmonized rules of origin, dealing with cross-sectoral issues, review of the numerous outstanding issues on product-specific rules of all chapters of the Harmonized Commodity Description and Coding System (Harmonized System), upon which the rules are based, and attempting to reach consensus on these various issues.

In late December, the Committee established its 2001 work program, following the decision by the

WTO's General Council to expedite the remaining work on the harmonization of non-preferential rules of origin, so as to complete it by the time of the Fourth Ministerial Conference, or by the end of 2001 at the latest.

Trade Facilitation

In 1996, Trade Ministers directed the Council on Trade in Goods to undertake exploratory and analytical work, drawing on the work of other relevant international organizations, on the simplification of trade procedures in order to assess the scope for WTO rules in this area. In pursuing this work, WTO Members have compiled a comprehensive inventory of the work accomplished or being undertaken on trade facilitation in other international organizations, including non-governmental organizations (NGOs). In addition to active participation in various meetings, many Members, including Canada, have contributed papers setting out ideas or discussing their national experiences in the area of trade facilitation.

Of particular relevance to the WTO's work on trade facilitation was the 1998 WTO trade symposium held to help identify the main areas where traders face obstacles when moving goods across borders. Private-sector traders at the symposium made it clear that the World Trade Organization should play a key role in this area, both in terms of ensuring the full implementation of existing obligations that facilitate trade (e.g. the Customs Valuation and expanding and developing rules aimed at simplifying and harmonizing border-related procedures. The objectives of such efforts were, and continue to be, to create greater efficiencies and cost-savings for both the trading public and governments and to promote investment.

During 2000, the work on trade facilitation revolved around three key themes: (a) presentation of national experiences by Members, (b) exploration and analysis of trade facilitation principles and measures; and (c) development and capacity building aspects of trade facilitation. The discussions revealed many common elements between the principles of trade facilitation and the core principles of the World Trade Organization, and the importance of technical assistance and capacity building for developing countries in this area. These three themes will

continue to serve in 2001 as the basis for the WTO's exploratory and analytical work on the possible scope for WTO rules.

Canada strongly supports this initiative and, through its active participation in the exploratory and analytical discussions held since 1998, has made some specific and practical suggestions around which WTO trade-facilitation provisions might be developed. As set out in its 1998 paper, Canada's suggestions reflect the view that the World Trade Organization should work to add value and fill gaps in existing initiatives in other international organizations and should build on existing WTO provisions related to trade facilitation.

In October 2000, Canada followed its earlier suggestions on trade facilitation principles with a comprehensive paper outlining our experience in the area of trade facilitation, the principles we followed and the lessons we learned in the process – most importantly that trade facilitation is an investment, now and into the future. A key Canadian objective is to continue to put forward relevant ideas and practical suggestions that will play a significant role in moving toward a consensus on the benefits of international rules on trade facilitation. The overarching objective is to facilitate trade in a practical manner that is meaningful to traders, i.e. to build on existing WTO obligations to maximize transparency, expedite the release of goods and reduce, simplify, modernize and harmonize border-related requirements, procedures and formalities, accompanied by an integrated, co-ordinated and interactive package of technical assistance and capacity building for developing countries. Canada continues to support strongly the inclusion of trade facilitation in the next round of WTO negotiations.

IMPROVING ACCESS FOR TRADE IN SERVICES

World trade in services in 1998 represented 19.5 percent of the total world trade. Services production is a core economic activity in virtually all countries and has grown significantly in recent years. In 1997, the services share in total value-added to gross domestic product ranged from almost 40 percent in LDCs, to more than 70 percent in highly developed countries such as Canada.

GETTING THE INTERNATIONAL RULES RIGHT: THE WORLD TRADE ORGANIZATION

The Canadian services sector is extremely dynamic. In fact, it exhibited stronger growth than the rest of the economy over the 1990s. In 1999, for example, services represented two-thirds of total gross domestic product, and our exports of services grew by 6 percent to \$51.8 billion. In 1999, 10.7 million Canadians were employed in services-sector jobs, accounting for 74 percent of total employment. Over the past two decades, most of the new jobs created in Canada have been in the services sector. Out of the 4.5 million net gain in jobs since 1976, 4.2 million were in services-producing industries. The services sector is leading the transformation of the Canadian economy into a knowledge-based economy.

Canada is the 12th largest exporter of services in the world. Given the importance of services exports to our economy, Canada has much to gain from negotiating further liberalization and expansion of international markets for services. The United States is our most important trading partner for services, as it is for goods. Our services exports are, however, less dependent on the U.S. market than is the case for our goods exports, and our fastest-growing export markets are elsewhere. Commercial services exports to Brazil, for example, grew by an average of 150.5 percent between 1992 and 1998; to Chile by 70.5 percent; and to China by 24.7 percent. The growing importance of these markets reinforces the need for benefits of a multilateral approach to liberalization of trade in services.

One of the ways in which this liberalization can be undertaken is via the current negotiations of the WTO's General Agreement on Trade in Services (GATS). The GATS, which has been in effect since the World Trade Organization entered into force in 1995, represents the first multilateral, legally enforceable framework of rules governing this huge area of trade.

Ongoing GATS Negotiations

Canada needs to be able to rely on multilateral, legally-enforceable rules on trade in services. These rules improve market access abroad for Canadian services and provide Canadian consumers with a wider choice of quality services at competitive prices. Like Canada's other international treaties, the General Agreement on Trade in Services (GATS) is an instrument through which Canada exercises its

sovereignty, and through which Canadian citizens can influence and shape international affairs.

The GATS required that further negotiations on services begin no later than January 2000. These talks are taking place in special negotiating sessions of the Council for Trade in Services, the first of which occurred on February 25, 2000. To date, the negotiations have been quite preliminary, focussing on the modalities and on the mandate to examine rules in the context of certain work programs.

Issues for consideration during the talks include sectors of export interest to Canadian industry; markets of interest to Canadian industry; current or potential barriers faced by Canadian industry in providing services to foreign markets or consumers; improving access to countries that are key export destinations for Canadian services, and providing Canadians with access to quality services at a competitive price. As a significant exporter of services, Canada will pursue multilateral, legally-enforceable rules that will allow increased access to foreign markets for Canadian services firms. In addition, Canada will work collectively with other WTO Members to improve the agreement's transparency and clarity in order to make it more user-friendly.

Canada will push for greater market access for services suppliers in sectors including professional, business, financial, telecommunications, computer, environmental and transportation services. At the same time, however, there are certain domestic services sectors in which our interest in undertaking further liberalization may be limited. The Canadian government intends to continue to uphold its clearly defined and long-established objectives to safeguard Canada's freedom of action in key services sectors, including health, education and culture.

The GATS negotiations raise complex issues, and we are still at an early stage in discussions. In preparation for the negotiations, WTO Members, and Canada in particular, have embarked on an exercise of consultation with stakeholders representing a wide range of interests, in order to identify negotiating interests and objectives. As negotiations progress, the government will continue to consult extensively with Canadian industry and other stakeholders, and involve the provinces, to ensure that Canada's negotiation positions reflect the interests of all Canadians.

The GATS Consultations Process

Citizen engagement has become an integral part of the Government of Canada's trade policy agenda. In February 1999, the government announced that it would seek the views of Canadians on the scope, content and process for negotiations to establish the Free Trade Area of the Americas (FTAA) and for the expected next round of negotiations at the World Trade Organization (WTO). Through hearings conducted by the Standing Committee on Foreign Affairs and International Trade (SCFAIT), the government launched the most extensive parliamentary consultations ever conducted across Canada on the direction of multilateral trade and investment policies. Fully one-third of the recommendations made by SCFAIT in its report, *Canada and the Future of the World Trade Organization: Advancing a Millennium Agenda in the Public Interest*, encourage the government to engage and consult Canadians in preparation for new negotiations.

Intensive and ongoing consultations on the General Agreement on Trade in Services (GATS) remain an integral part of the government's overall commitment to seek the views of Canadians in developing trade policies and positions, using a broad range of consultative mechanisms involving the SCFAIT process, as well as the Sectoral Advisory Groups on International Trade (SAGITs); sectoral consultations with industry representatives; and regular meetings with our counterparts in provincial, territorial and municipal governments. Equally important, all interested Canadians were invited to provide their comments

and views on the issues, via the GATS 2000 Web site; in virtual (online) consultations; and in response by e-mail, letter or fax to a notice placed in the *Canada Gazette*.

To address issues of interest to diversified audiences, the government also conducted a series of multi-stakeholder roundtable sessions on the GATS in partnership with the governments of ten provinces and two of the three territories in 12 cities across Canada from June to October 2000. Of the more than 1000 organizations and groups that were invited, 335 individuals participated in the sessions; they represented 274 organizations drawn from business and labour associations, non-governmental and public interest groups, consumers, producers, regulators, academics and service industry representatives. In addition to opening up a mutually educational dialogue between government officials and stakeholders, the sessions also provided a regional dimension and balance to Canadians' input concerning the GATS.

The government will continue to consult, inform and engage citizens as the negotiations progress to ensure that Canada's position on the GATS continues to reflect the interests of all Canadians.

The Government of Canada welcomes the views of interested Canadians. To provide your comments and views, please visit the Web site of the Department of Foreign Affairs and International Trade (www.dfaif-maeci.gc.ca/tna-nac) or the Canadian government's Web site for the GATS negotiations (services2000.ic.gc.ca).

Financial Services

Many Canadian financial institutions (FI) have a long history of being active internationally. As intermediaries, they were "brought" abroad, often by their Canadian clients that had significant export and/or production facilities abroad. Moreover, expanding internationally has enabled them to grow in spite of the maturity of the Canadian financial market. In fact, the foreign operations of Canadian banks or of life insurance companies account for over 40 percent of their earnings.

The WTO Agreement on Financial Services was concluded in 1997 and was implemented in 1999. Financial services issues are included in the current round of GATS negotiations where our priority is to seek broader and deeper market access commitments from our trading partners. The market priorities for Canadian financial institutions continue to be the United States and South East Asia, and, to a lesser extent, Latin America and Europe. Impediments to market access and national treatment remain a concern in South East Asia and Latin America and will be a focus of our participation in the GATS negotiations on financial services. In addition to

the GATS negotiations, the completion of China's accession to the World Trade Organization is also expected to provide new opportunities to Canadian financial institutions.

Basic Telecommunications Services

In order to ensure that Canadian industry can take full advantage of access to new markets resulting from the 1998 GATS Agreement on Basic Telecommunications (ABT), Canada is closely monitoring implementation of this agreement by its trading partners as this takes place over the next decade. The Agreement on Basic Telecommunications consists of specific commitments, by participating countries, on market access, national treatment and the application of pro-competitive regulatory principles. Nearly 90 countries, accounting for over 90 percent of world-wide telecommunication revenues, have made such commitments. There is a good basis for further liberalization of the telecommunications services market in negotiations under the GATS, and Canada is working toward this objective.

Professional Services

In recent years, Canadian professional services providers (which include engineers, accountants, architects, legal consultants and geologists) have increasingly exported their expertise abroad. Canadian engineering consulting firms ranked fourth in total international billings after the United States, the United Kingdom and the Netherlands. Canadian law firms are well placed to take advantage of business opportunities world-wide, as Canada functions within the two main law regimes (common law and civil law). Canadian accountancy firms are increasingly moving to develop international alliances in addition to the national or interprovincial affiliations that some have established. Our architectural firms have undertaken projects in areas in which they are recognized world experts (school buildings, airports, Arctic design and construction technology and office complexes) and are particularly active in the Asia-Pacific region.

Canadian professional services providers benefited greatly from the commitments that Canada obtained from other countries in the GATS. The ongoing GATS negotiations provide an excellent

vehicle to promote greater market access for our professional services. Improved market access could be achieved through securing improved commitments from our WTO partners and through strengthening the existing GATS disciplines to ensure that measures such as qualification requirements and procedures, technical standards and licensing requirements, are based on objective and transparent criteria. To this end, the World Trade Organization established a Working Party of Domestic Regulations in April 1999, with a mandate to develop any necessary disciplines for professional services (and potentially other services), building on the work done since 1995 by the Working Party on Professional Services.

Another tool to enhance the potential for Canadian exports of professional services is the facilitation of Mutual Recognition Agreement negotiations between Canadian and foreign professional bodies. The government will continue to promote and support the negotiation of such agreements.

Temporary Entry for Services Providers

Many Canadian services firms actively export their services to foreign markets around the world. In order for them to be able to continue and expand their export activities, these businesses require the additional certainty that results from the development of international rules on trade in services, especially with respect to the mobility of people.

Canada is party to several regional, bilateral and multilateral trade agreements (the NAFTA, the Canada-Chile Free Trade Agreement (CCFTA), the GATS), and is currently negotiating various bilateral/regional trade agreements that include provisions on the movement of people. The labour mobility provisions of these trade agreements promote trade in goods and services by facilitating the temporary cross-border movement of business persons. Companies often need key personnel to move to a foreign market on a temporary basis in order to assist with the delivery of their services, or simply to consult with clients, negotiate contracts, etc. Both the bilateral agreements and the GATS contain provisions that facilitate the movement of short term business visitors, intra-company transferees, and certain professionals. In addition, the NAFTA and the CCFTA facilitate the movement of traders and investors.

Under the trade agreements to which Canada is a party, Canada has set aside the labour market test for certain categories of workers. The positive impact of facilitating entry of temporary workers is thought to outweigh any negative impacts on the labour market. Canadian services providers have benefited greatly from the commitments obtained from other countries in the last round of the GATS, and there are opportunities for them to benefit further from increased trade liberalization in the current GATS negotiations.

Canada, as a trading nation, is interested in developing open and more secure conditions for international trade in services and in the GATS negotiations will continue to pursue commitments and rules to improve and secure access for Canadian services providers.

ISSUES THAT AFFECT ACCESS FOR TRADE IN GOODS AND SERVICES

Government Procurement

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

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

Electronic Commerce

E-commerce is not a business "sector" in itself, but rather, a means for conducting business across a wide range of sectors and a means for capturing remarkable new efficiencies in business processes. As a consequence, the rapid growth in e-commerce may well represent one of the most significant developments in international trade ever witnessed.

E-commerce is likely to have far-reaching effects on trade flows. For example, information products (e.g. software and music), which have traditionally been sold attached to carrier media such as tapes and compact discs, can increasingly be delivered electronically. Another significant development is the possibility of supplying a wide variety of complex services on-line across borders, where such trade once seemed unfeasible. These changes have the potential to bring tremendous advantages for Canadian consumers in the form of increased access to information, choice of products and the benefits of lively competition. They may offer opportunities and benefits for Canadian businesses in the form of greatly expanded access to international markets. At the same time, however, the changes also pose new challenges to the traditional territorial basis of governmental regulatory jurisdiction.

In order for electronic commerce to realize its full social and economic potential, attention has therefore been directed to the manner in which already existing rules and regulations governing international trade apply to electronic commerce transactions. As work progresses, particularly within the WTO and the FTAA, the government will continue to consult Canadians on the development of a trade policy that will help to facilitate e-commerce.

Dispute Settlement

The World Trade Organization, unlike many other international organizations or agreements, has well established rules and procedures for dealing with disputes among its Members. These are contained in the Understanding on Rules and Procedures Governing the Settlement of Disputes (Dispute Settlement Understanding or DSU) which is often considered as a cornerstone of the World Trade Organization. Some of the most important features of the DSU are the automatic establishment of panels to review complaints, the right to appeal rulings to a permanent Appellate Body, and the automatic

GETTING THE INTERNATIONAL RULES RIGHT: THE WORLD TRADE ORGANIZATION

adoption of panel reports. But more importantly, beyond providing a process for challenging alleged trade barriers, the World Trade Organization encourages Members to resolve disputes through consultations. Indeed, many disputes are settled at the consultation stage without ever reaching the panel stage. The Dispute Settlement Body (DSB), composed of representatives of all WTO Members, is responsible for administering the DSU.

While the DSU rules and procedures for settling disputes are a major improvement over those that existed under the old GATT, that is not to say that they cannot be further improved. The months following the WTO Ministerial Conference in Seattle (December 1999), Canada played a leading role in trying to improve and clarify the DSU, in particular, the process to be followed when Members disagree on the WTO-consistency of measures taken to comply with panel rulings and the rules governing the right of Members to suspend concessions in response to non-compliance with WTO rulings. This work will continue throughout 2001.

Canada has used the WTO dispute settlement provisions on many occasions to defend our trade interests. Since the World Trade Organization came into force in 1995, Canada has been a complainant in seven cases and has joined other Members' consultations or intervened as a third party in panel proceedings in over 30 cases. During the same period, Canada defended Canadian measures in the World Trade Organization on seven occasions, including most recently the Auto Pact, certain aspects of Canada's pharmaceutical patent regime, certain measures affecting the export of civilian aircraft and measures affecting the importation of milk and the exportation of dairy products.

During the past year, Canada successfully challenged the implementation by Australia of an earlier WTO ruling concerning the importation of fresh, chilled and frozen salmon. The compliance panel agreed with Canada that Australia's new measures for the importation of salmon were still more trade restrictive than necessary, in violation of Australia's WTO obligations. Following the panel decision, Canada and Australia negotiated an agreement which reopened the Australian market to fresh, chilled and frozen Canadian salmon subject to certain certification and packaging requirements.

Canada also successfully challenged Brazil's implementation of an earlier WTO ruling concerning its export financing program on aircraft which was found to be in violation of the Agreement on Subsidies and Countervailing Measures. On May 9, 2000, a compliance panel ruled that Brazil had not properly implemented the rulings. On August 28, 2000, a WTO Arbitrator Panel ruled that Canada would be justified in imposing countermeasures up to the level of \$344.2 million annually in response to Brazilian non-compliance. On December 12, following the breakdown of bilateral negotiations, Canada requested and received WTO authority to impose countermeasures on Brazil up to the level set by the Arbitration Panel. Also on that date, Brazil announced revisions to PROEX that it claimed bring the program into compliance. On February 16, 2001, at Canada's request, the World Trade Organization established a panel to examine whether the recent revisions do, in fact, bring PROEX into compliance with that country's WTO obligations.

A WTO panel was established on September 11, 2000, to hear Canada's complaint that the U.S. treatment of export restraints in countervailing duty investigations is contrary to U.S. obligations under the Agreement on Subsidies and Countervailing Measures.

Finally, Canada also challenged before the WTO the decree banning asbestos in France. On September 18, 2000, a Panel concluded that the French decree was in conformity with the WTO agreements. The Appellate Body upheld this conclusion in its report issued on March 12, 2001.

Accessions to the World Trade Organization

Canada continues to play an active role in the WTO accession process:

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

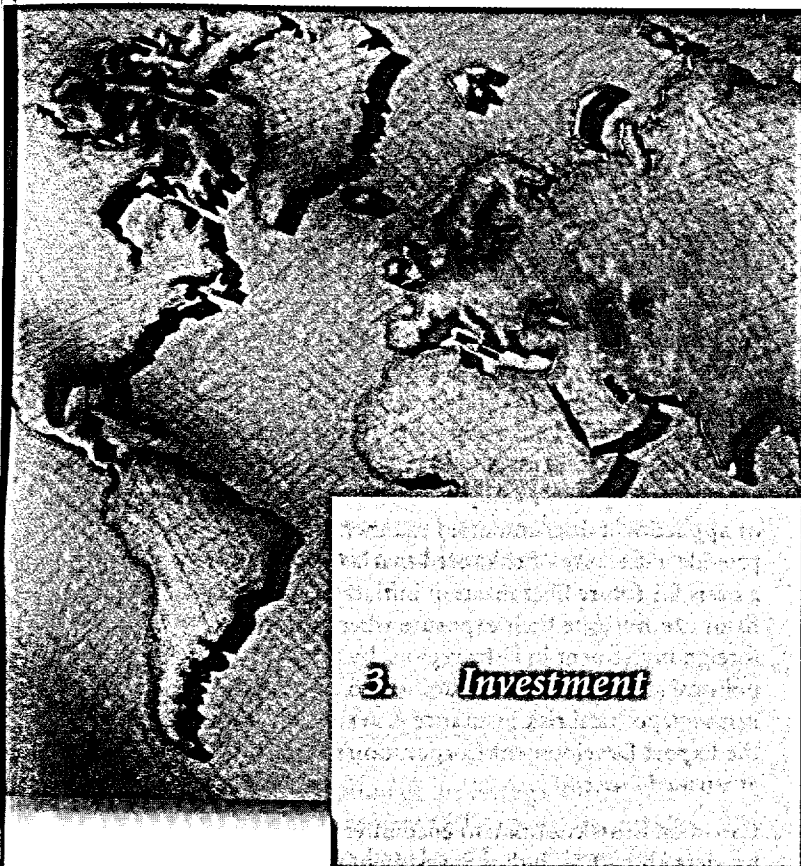
Over the past year, Canada has been active in negotiating the accessions of close of 30 applicants. In 2000, six countries, Albania, Croatia, Georgia, Jordan, Lithuania and the Sultanate of Oman, successfully acceded to the World Trade Organization, increasing the number of WTO Members to 141.

Several other applicants will likely complete their accessions in 2001, such as China and Chinese Taipei (Taiwan), and many others are under active consideration, including Russia, Ukraine, Saudi Arabia and Vietnam.

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

In parallel with WP deliberations, WTO Members hold *bilateral* market access negotiations with the acceding country. During the bilateral negotiations, Canada focusses on obtaining the reduction or elimination of tariffs and non-tariff barriers affecting access for goods and services that are of current or future interest to Canadian companies. Canada expects applicants to bind their tariff commitments; to provide non-discriminatory access; and to join the various zero-for-zero tariff elimination agreements and tariff harmonization initiatives developed by the World Trade Organization.

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



3. **Investment**

Foreign investment flows worldwide have grown rapidly in recent years and have figured prominently in the trend toward global economic integration. The global stock of foreign direct investment (FDI) has increased more than six-fold over the past two decades, from US\$524 billion in 1980 to US\$1.1 trillion in 2000.

Canada is an active player in this global economy. Canadian direct investment abroad (CDIA) has more than tripled from \$74 billion in 1987 to \$257 billion in 1999. Over the same period, foreign direct investment in Canada has doubled, from \$106 billion in 1987 to \$240 billion. Since 1996, the stock of Canadian direct investment abroad has surpassed the stock of foreign direct investment in Canada.

CANADIAN DIRECT INVESTMENT ABROAD

Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. Studies have shown that outward foreign direct investment has been observed to stimulate increased exports from home (investing) countries. In at least one analysis, it was found that each dollar of outward foreign direct investment is associated with some two dollars of additional exports. Canadian firms increasingly recognize that investing abroad is a prerequisite to ensuring their health in Canada. Through foreign investment, firms seek a host country that affords the greatest opportunity for competitiveness and economic success. Studies indicate that between 30 and 40 percent of international trade for manufactured goods is undertaken between parent firms and their foreign subsidiaries (intra-firm trade). Low levels of import penetration into foreign markets are often linked to low levels of investment by reason of investment rules favouring domestic investors.

The extensive international business activity of Canadian firms reflects the realities of an increasingly integrated world market and the need for Canadian business to participate in that integration if they are to remain competitive. Investment abroad is an essential element of business strategy, particularly in high-growth markets where a physical presence is often a prerequisite for effective access.

In 1999, 52 percent (\$134 billion) of Canadian direct investment abroad was located in the United States. A further 19 percent of Canadian direct investment abroad (\$48.9 billion) was based in the European Union. Other major Canadian investment locations include the Caribbean, Latin America and Japan. Similar to global trends, developing countries are becoming increasingly important destinations for Canadian direct investment abroad. In 1988, 14 percent of Canada's outward investment went to developing countries. By 1999, that percentage had increased to approximately 24 percent (\$62 billion).

The finance and insurance sectors accounted for approximately 33 percent of Canadian direct investment abroad in 1999; the energy and metallic minerals areas accounted for 21 percent; services and retailing for 13 percent; and the remainder was widely diversified in other industrial sectors. Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. For example, outward investment in the metals and minerals sector results in domestic sales of machinery and equipment, as well as of engineering, architectural and environmental services.

FOREIGN DIRECT INVESTMENT IN CANADA

The benefits of investment flows are now well-recognized, and countries compete aggressively to attract inward investment. Inward foreign direct investment in Canada is an important source of jobs and economic growth. Foreign direct investment provides capital, new ideas, new technologies and innovative business practices.

In 1999, the United States accounted for \$173 billion or 72 percent of foreign direct investment in Canada. The European Union represented \$45.2 billion or 18.8 percent of foreign direct investment in Canada. Other significant investors included Japan (\$6.3 billion), Hong Kong (\$3.1 billion) and the Caribbean countries (\$2.7 billion). Foreign direct investment in Canada was well-diversified across industrial sectors. Major recipient sectors included finance (21 percent), energy and metals (16 percent), machinery and transportation equipment (11 percent), services and retailing (8 percent) and wood and paper (8 percent). The remaining 36 percent was widely diversified across other sectors.

CANADA'S INTERNATIONAL INVESTMENT AGENDA

Investment rules play an important role in protecting and facilitating the foreign investment activities of Canadian firms. Formally agreed international rules, through integrated trade agreements or investment treaties, can be particularly important for smaller economies like Canada, which do not have the same leverage as larger players such as the United States and the European Union. Investment rules such as those within the NAFTA and Foreign Investment Protection Agreements (FIPAs) inform Canadian investors about the rules of the game in foreign markets through basic commitments to transparency and predictability, thus promoting clear procedures, fewer delays and greater consistency in legal and policy regimes. Rules offer a greater measure of security for investors through assurances that national policies will not be unduly changed or applied in a discriminatory manner. Rules also provide a measure of enhanced market access and a basis for future liberalization initiatives. Canadian firms can mitigate their exposure when making foreign investment in risky regions by purchasing political risk insurance. In addition to commercial insurers, political risk insurance is available from the Export Development Corporation's Web site at www.edc-see.ca

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

Investment agreements do not restrict a country's ability to regulate in the public interest. Foreign investors in Canada (and Canadian investors in foreign markets) must abide by the domestic laws of the host country and obey the same rules as nationals. Foreign investors are in no way exempt from the domestic laws of the country playing host to their investment, including, for example, domestic competition laws or regulations relating to health, labour or the environment. Similarly, foreign investors in Canada are required to obey the same Canadian laws that Canada's own domestic investors must obey.

Canada has a relatively open investment regime which compares well internationally. Under the Investment Canada Act, foreign acquisitions of large Canadian companies (those with assets worth more than \$192 million) and foreign investments in certain sensitive sectors such as culture are subject to review. The Investment Canada Web site provides guidance as to which transactions will be subject to review (investcan.ic.gc.ca/index.htm). Remaining investment restrictions in Canada lie largely in the services sector, for example, financial services, telecommunications and transportation. Canada has long been a supporter of a rules-based (rather than power-based) approach to international trade and investment with the objective of bringing the investment regimes in other countries to Canada's level of openness.

For more information on international investment policy development, international investment discussions and negotiations, investment promotion, and investment research and analysis, please visit Canada's International Investment Web site at intinvest.ic.gc.ca

BILATERAL INITIATIVES

Since the inception of the Foreign Investment Protection Agreement (FIPA) program in 1989, Canada has concluded and brought into force 22 FIPAs, and is currently pursuing negotiations with several important commercial partners, including China and Russia. FIPAs are bilateral, reciprocal agreements designed to protect and promote Canada's foreign investments abroad, particularly in developing economies, through a framework of legally-binding rights and obligations. Canadian companies tend to have greater concerns about investment in developing countries with emerging economies and less developed legal systems where barriers tend to be more prevalent and less transparent and remedies are not readily available.

Canada's FIPAs serve to provide assurances to investors that the rules governing investment will remain bound by certain standards of fairness and predictability. FIPAs can help Canadian enterprises

reduce both risks and many of the costs associated with making investments in emerging economies. Bilateral investment treaties such as FIPAs are used extensively worldwide; there are currently more than 1,600 such agreements. A current list of Canada's FIPAs can be found at www.dfait-maeci.gc.ca/tna-nac/fipa-e.asp

REGIONAL INITIATIVES

As part of the NAFTA, Canada negotiated a comprehensive investment agreement with the United States and Mexico. The NAFTA investment chapter was the basis for the investment provisions in the Canada-Chile Free Trade Agreement (CCFTA) and most of Canada's FIPAs. As part of the FTAA initiative, Canada is currently engaged with its trade and investment partners in this hemisphere to develop investment rules that would provide protection, stability, transparency and predictability to Canadian investors in these markets.

ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

Canada is also involved in regional investment discussions with Pacific Rim countries through APEC. Through a program of voluntary individual action plans (IAPs) guided by non-binding investment principles, APEC economies work to liberalize their investment regimes by removing restrictions on market access and strengthening their legislation to protect foreign investment. Over the past year, Canada has worked with other APEC Members in developing a more transparent and comprehensive template for Investment IAPs. Canada has made a detailed submission to APEC based on this new template which can be viewed through the IAP Web site at www.apecsec.org.sg. In addition, Canada participated in the APEC Investment Symposium in Shanghai in March 2000 where the Canadian Chamber of Commerce made a presentation on its Survey of Investment Barriers. Canada will continue to pursue similar activities during the year.

THE WORLD TRADE ORGANIZATION

At the 1996 WTO Singapore Ministerial Conference, an educative work program on investment was established with a mandate to investigate the relationship between trade and investment. The WTO Working Group on Trade and Investment has provided a forum for balanced discussion between developed and developing countries on international investment and the possibility of developing rules in the WTO framework.

Issues discussed over the past year included the relationship between foreign direct investment and the transfer of technology to host economies; a review of WTO provisions on matters related to investment; bilateral, regional, plurilateral and multilateral agreements and initiatives; and implications for trade and investment flows of existing international instruments. The Working Group also engaged in a general discussion of issues requiring further study.

In the lead-up to the WTO Ministerial Conference in Seattle, a number of countries, led by the European Union, proposed that investment be included in the agenda for a new round of WTO negotiations. These proposals suggested a modest framework for negotiations and clearly differentiated from the previous initiative for an OECD Multilateral Agreement on Investment. Discussions at the Seattle Conference were suspended, however, and there is no consensus among WTO Members to move forward on investment rules at this time.

The World Trade Organization also incorporates a number of investment-related rules in its existing agreements. The Agreement on Trade Related Investment Measures (TRIMs) prohibits a number of performance requirements, such as trade-balancing requirements, domestic sourcing and export restrictions applicable to goods industries. With the exception of least developed countries, all WTO Members countries were required to eliminate their TRIMs by January 1, 2000. Over the past year, extensive discussions have taken place in the World Trade Organization concerning a number of requests from developing countries for an extension of the phase-out period for their existing TRIMs.

The government is committed to safeguarding Canada's right to regulate and promote fundamental Canadian values in strategic sectors such as health, education, culture and environmental protection.

CORPORATE SOCIAL RESPONSIBILITY

In the Canadian business community there is a growing awareness of the need for, and the advantages of, ethical business conduct. The government has been encouraging responsible corporate conduct through the promotion of voluntary instruments. Canada is party to the OECD Guidelines for Multinational Enterprises, a framework of voluntary principles and standards of responsible business conduct recommended by Member governments to multinational enterprises operating in or from OECD countries. They address issues such as labour standards, environmental protection, anti-corruption and consumer protection. Originally adopted in 1976, the Guidelines were the subject of a two-year review completed in June 2000. The government has established a National Contact Point to work closely with business and other stakeholders to raise awareness of the Guidelines and assist in the resolution of issues. The Guidelines and other international standards and best practices, such as the UN Global Compact and Tripartite Declaration of the International Labour Organization, provide a frame of reference for the voluntary codes of conduct developed by companies themselves. A number of Canadian companies have endorsed the International Code of Ethics for Canadian Business, a voluntary instrument that was developed by the private sector in 1997. For further information, please visit our Web site at www.dfait-maeci.gc.ca/tna-nac/social-e.asp

THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

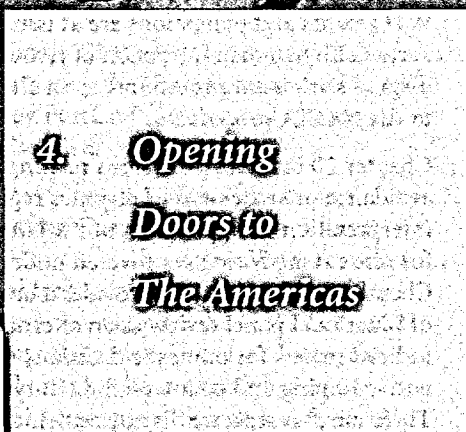
In January 1994, Canada, the United States and Mexico launched the North American Free Trade Agreement (NAFTA) and formed the world's largest free trade area. Designed to foster increased trade and investment among the partners, the NAFTA contains an ambitious schedule for tariff elimination and reduction 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.

As of January 1, 1998, virtually all Canada – U.S. trade is tariff-free. 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.

Total trade between Canada, Mexico and the United States has increased substantially since the NAFTA was implemented. Canada's total merchandise trade with the United States and Mexico was approximately \$641 billion in 2000. Two-way merchandise trade between Canada and Mexico grew by 27 percent, reaching \$14 billion in 2000. Our merchandise trade with the United States was up 12 percent over the same period, reaching \$627 billion in 2000. In terms of Canada's total merchandise exports, 86.6 percent go to our NAFTA partners.

The NAFTA provides for virtually all tariffs to be eliminated on trade in originating goods between Canada and Mexico by January 1, 2003. A third round of "accelerated" tariff reductions was implemented in January 2001. Mexican tariffs were eliminated on certain pharmaceuticals, chemicals and batteries, representing close to \$207 million in bilateral trade. As of January 1, 2001, Mexican tariffs on Canadian products range between 0 and 4 percent, with a few higher tariffs remaining on certain agricultural products subject to tariff-rate quotas (mainly corn, barley and dry edible beans) and on dairy and poultry products.

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. Canadian manufacturers are able to access tariff free, high-quality intermediate goods from across North America in the production of final goods for export. Consumers benefit from this heightened competition and integrated marketplace with better prices, greater choice of products and higher-quality goods and services.

The period since the implementation of the NAFTA was also marked by an impressive increase in trade in services among the three countries. In 1998, Canada's trade in services with the United States and Mexico was approximately \$64 billion, from a level of \$43 billion in 1993 (an average annual growth of 8.4 percent). Over the same period, the two-way services trade between Canada and Mexico has grown at an impressive annual rate of 10.8 percent, to reach just over \$1 billion in 1998. Our services trade with the United States has reached \$72.8 billion in 2000, from \$42.3 billion in 1993. In terms of Canada's total services exports, 59 percent go to our NAFTA partners.

Improved access to NAFTA markets, and the existence of clear rules on trade and investment, have increased Canada's attractiveness to foreign and domestic investors. Total foreign direct investment into Canada reached \$240 billion in 1999, more than 72 percent of which comes from our NAFTA partners. Foreign direct investment into Canada from the United States increased to \$173 billion in 1999, while investment from Mexico reached \$500 million, over three times more than in 1993. Canadian direct investment in the NAFTA countries has also increased, reaching \$134 billion into the United States in 1999, almost twice that of 1993, and \$2.8 billion into Mexico, more than five times the 1993 level.

Institutionally, the implementation of the NAFTA is directed by the NAFTA Commission, composed of the trade ministers from each country. The Commission oversees the developments and progress made in the work program of the more than 30 NAFTA committees and working groups which ensure the effective implementation of the NAFTA. The Work Program, along with each committee or working group mandate and priorities are available at www.dfait-maeci.gc.ca/nafta-alena/revchart-e.asp

Day-to-day management of the NAFTA work program, and of the implementation of the Agreement more broadly, is carried out by the

NAFTA Co-ordinators – the three senior trade department officials designated by each country.

The NAFTA working groups and committees also provide a transparent mechanism for discussion of issues and possible avoidance of disputes through early dialogue on contentious points.

Settling Disputes under NAFTA

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

From November 1999 to November 2000, four requests for panel review were filed under Chapter 19 of the NAFTA for review of decisions made by Canadian agencies involving anti-dumping or countervailing duty matters. These are: Iodinated Radiographic Contrast Media (dumping and injury), Household Appliances (dumping and injury).

As well, eight requests for panel review of decision made by the United States agencies involving Canadian products were filed: Live Cattle (CVD), Live Cattle (Injury), Cut-to-Length Steel (AD), Corrosion-Resistant Steel (AD), Pure Magnesium, Pure & Alloy Magnesium, Corrosion-Resistant Carbon Steel and Magnesium (five-year review).

Two Corrosion-Resistant Steel panel reviews and three Pure & Alloy Magnesium panel reviews made by the United States agencies involving Canadian products remain active. During the period noted above, four panel proceedings were completed: Certain Baby Foods from the United States (injury), Cold-Reduced Flat-Rolled Sheet from the United States (injury), Pipe Fittings from the United States (injury) and Hot-Rolled Carbon Steel Plate from Mexico.

On January 17, 2001, Canada held Chapter 20 consultations with the United States on U.S. restrictions on Prince Edward Island potatoes. There are also several active Chapter 20 disputes between Mexico and the United States in which Canada is a third party. These disputes involve cross-border trucking and bus services and access for Mexican sugar to the U.S. market. The panel for Mexico's dispute with the United States on cross-border trucking and bus services issued its report in February 2001.

One Extraordinary Challenge Committee (ECC) Proceeding involving the United States and Mexico, relating to Gray Portland Cement and Clinker from Mexico was also filed.

In 2000, one new dispute against Canada was commenced under Chapter 11 by United Parcel Service of America Inc. The claim alleges breaches of the national treatment and minimum standard of treatment provisions under the NAFTA, as well as breaches respecting monopolies and state enterprises. The tribunal has been established and the first procedural hearing is anticipated early in 2001. Decisions were also rendered in two on-going disputes involving Canada. In the arbitration commenced by the American company, Pope & Talbot Inc., the tribunal rendered its decision in June 2000, finding that Canada had not breached its obligations under the performance requirements and expropriation provisions of Chapter 11. On the remaining two issues of national treatment and minimum standard of treatment, the tribunal's decision is expected later in 2001. In the dispute brought by S.D. Myers Inc. (U.S.) concerning Canada's imposition of a 1995 prohibition on the export of PCB wastes to the United States, the tribunal's decision was rendered on November 13, 2000, finding Canada in breach of its national treatment and minimum standard of treatment obligations. The next phase of the hearings will deal with the issue of damages.

As part of the ongoing review by the Parties of the operation of NAFTA, Canada is continuing to work with the United States and Mexico to seek clarification on a number of substantive and procedural issues that have arisen in the context of Chapter 11 disputes.

The Fruit and Vegetable Dispute Resolution Corporation was established on February 1, 2000. This tri-national private commercial dispute resolution mechanism is currently operating in Canada and the United States and is in the development stages in Mexico. Once in full operation, this mechanism will improve significantly the commercial conditions for trade in fruit and vegetables among the NAFTA countries.

Looking Forward

The NAFTA is not a static agreement. It has created a living framework for managing current and future priorities in the North American marketplace. Looking to the future of the agreement, some of Canada's priorities are to:

- continue our efforts to clarify certain key procedural and substantive provisions of the investment chapter of the NAFTA and increase procedural transparency (Chapter 11);
- reinvigorate the process to make compatible, to the greatest extent possible, our SPS measures;
- seek the implementation of the mutual recognition agreements already signed by the three countries' national professional associations representing foreign legal consultants and engineers;
- further facilitate the temporary movement of business people through enhanced co-operation among NAFTA partners;
- make compatible the Parties' standards regarding land transportation;
- harmonize regulatory procedures and standards related to telecommunications;
- simplify rules of origin for goods where external tariff concerns are minimal;
- improve border and customs-related infrastructure and procedures; and
- evaluate the impact of rapid technological change on North American markets and have new ways of doing business (such as e-commerce) reflected in the rules of the NAFTA.

UNITED STATES

Overview

Canada and the United States are each other's largest trading partners, moving about \$1.8 billion worth of goods and services across the border each day. In 2000, Canada exported \$360 billion in goods to the United States and imported \$268 billion in return. Services exports totalled \$33.3 billion during the same period, with corresponding imports at \$39.4 billion. Fully 86.1 percent of Canadian merchandise exports are destined for the United States. Since the implementation of the FTA in 1989, two-way trade has more than doubled. Between 1992 and 2000, two-way trade in goods increased by approximately 13 percent per year. This contrasts with an annual increase of approximately 11.9 percent over the same period for Canada's trade in goods with the rest of the world.

The FTA, and subsequently the NAFTA, have had other positive spin-offs. For example, U.S. direct investment in Canada has increased from approximately \$85 billion in 1991 to \$173 billion in 1999, while Canadian direct investment in the United States has grown from \$63 billion to \$134 billion in the same period.

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, with particular focus on assisting women, young entrepreneurs and aboriginal firms to begin exporting to the United States. The New Exporters to Border States (NEBS) program has been highly successful in this regard, having helped more than 12,000 companies make their first forays into the U.S. market. The Canadian government also encourages Canadian exporters that have succeeded in more than one region of the United States to "graduate" to other international markets. For further information, please visit our Web site at www.dfait-maeci.gc.ca/geo/usa/nebs-e.asp

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

In promoting Canada's market access and business-development interests in the United States, it is important to consider each individual region of the United States in its own right. Most U.S. regions and many individual states have economies that are larger than many countries. There are also different cultural and economic influences at play in different areas of the United States. Over the past year, several federal cabinet ministers and deputy ministers have made visits to important U.S. regions to help forge relationships with government and business leaders. These initiatives are necessary to advance Canadian priorities and highlight the attractiveness of Canada as an investment destination.

Market Access Results in 2000

- On June 16, 2000, President Clinton signed into law Bill H.R. 4489 amending Section 110 of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996. The amended provision mandates the establishment of an electronic entry and exit data system at U.S. air, sea and land ports of entry to improve the management of data currently collected by U.S. immigration services. This law, therefore, precludes the imposition of new documentary requirements for Canadians travelling to the United States and averts the threat of debilitating border congestion.
- The State of Michigan agreed to reduce the Single Business Tax liability of Canadian trucking companies by approximately two-thirds.
- A national security investigation under Section 232 of the Trade Expansion Act of 1962 against foreign petroleum imports found that Canadian oil imports were a reliable and secure source of supply, and that the energy provisions of the FTA and the NAFTA had enhanced U.S. national energy security.
- The Canada-United States Consultative Committee on Agriculture established a Provincial/State Advisory Group and continued

its operation to bring concerns and differences forward for resolution before they become serious bilateral irritants.

- The movement of feeder cattle into Canada was facilitated by expanding animal health approvals for cattle from states that meet certain animal health criteria. Imports under the program grew to more than 180,000 head in 1999-2000, compared to 51,000 in 1998-1999. For 2000-2001, as of early November, imports are running 50 percent ahead of the previous year's pace.
- Secured a rectification of U.S. Harmonized Tariff Schedule to restore duty-free access for Canadian bovine meat.
- The United States removed their testing requirements for equine semen from Canada.
- Obtained withdrawal of U.S. regulations that would have put in place an import licensing regime for sugar-containing products and limited Canadian access.

Canada's Market Access Priorities for 2001

- ensure continued access to the U.S. market for Canadian Softwood Lumber exports following the expiration of the Softwood Lumber Agreement on March 31, 2001;
- continue to work with the United States to ensure the free movement of goods, services, and persons across the Canada-U.S. border;
- continue to press for removal of U.S. restrictions on imports of potatoes from Prince Edward Island including through the NAFTA dispute settlement process if necessary;
- continue to defend Canada's international trade agreement rights to maintain market access to the United States for Canadian wheat;
- continue to monitor proposed U.S. regulatory amendments concerning THC tolerances that could affect Canadian exports of hemp products to the United States;
- continue to press various U.S. states to ensure that Canadian firms are taxed in a fair, consistent manner, in accordance with international taxation norms;
- continue to press the United States against unilateral action which could expand the coverage of products subject to agricultural tariff rate quotas, such as for certain sugar syrups;

- continue Canadian advocacy efforts to inform U.S. opinion makers of the adverse impact of legislation affecting the free and easy movement of people and goods across the border;
- reinforce such advocacy by developing and supporting strategic alliances with U.S. customers and their representatives affected by such measures;
- continue to monitor closely and respond to key measures that may distort trade and investment decisions in the North American market; and
- continue to oppose the extraterritorial application of U.S. laws.

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.

ENSURING CANADA'S RIGHTS UNDER TRADE AGREEMENTS

Softwood Lumber Agreement

The Canada-U.S. Softwood Lumber Agreement expired March 31, 2001. The Canadian government has consulted extensively over the past 18 months with Canadian stakeholders and interest groups on the future of the lumber trade with the United States. The U.S. lumber industry is threatening to launch another countervailing duty investigation of Canadian practices absent a new agreement. Canada is fully prepared and committed to defending the interests of the Canadian industry against these unfounded allegations. Softwood lumber shipments to the United States were valued at \$10.7 billion in 1999.

In the past year, Canada and the United States reached a negotiated settlement for a dispute based on the U.S. unilateral reclassification of rougher headed lumber to bring it under the Canada-U.S. Softwood Lumber Agreement. In return for terminating the arbitration case on this topic, Canada received 72.5 million board feet of additional quota. Canada's challenge of U.S. reclassifications of drilled and notched lumber continues, and a decision is expected soon.

Canada also launched a WTO challenge of the U.S. law respecting the treatment of export restraints in future countervailing duty investigations. While not related directly to the softwood lumber dispute, the United States found that log export restraints did confer a countervailable subsidy in its 1992 investigation. A successful challenge will reduce the risk of a similar outcome in any future U.S. investigation involving export restraints.

More detailed information and the latest developments regarding the Canada-U.S. Softwood Lumber Agreement can be found at www.dfait-maeci.gc.ca/~eicb/softwood/lumber-e.htm

Sanctions

Canada continues to support multilaterally-endorsed economic sanctions as an appropriate instrument of foreign policy. At the same time, the Canadian government considers that the use of those sanctions must conform to established international practice. Canada remains concerned over the continued application of unilateral economic sanctions with extraterritorial effect by the United States. Such measures harm the legitimate right of Canadians to trade and invest freely, provided that they do so 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 Cuban Liberty and Democratic Solidarity Act (LIBERTAD) (also known as the Helms-Burton Act) of 1996 and the Iran and Libya Sanctions Act (ILSA) of 1996. A number of states and municipalities have also conditioned business relations with them on the embargo of certain foreign governments. The Massachusetts sanctions law against Burma has been held unconstitutional by the U.S. Supreme Court.

RESISTING U.S. MEASURES THAT CONSTRAIN ACCESS

Prince Edward Island Potatoes

On October 31, 2000, the United States Department of Agriculture (USDA) closed the border to imports of potatoes from Prince Edward Island (P.E.I.). This action followed confirmation by the Canadian Food Inspection Agency (CFIA) of the presence of potato wart in one field in P.E.I. The CFIA responded quickly by putting controls in place to prevent the

spread of the disease and to protect the disease-free status of potatoes in the rest of the province and in other provinces.

The CFIA held extensive discussions with the USDA in an effort to remove the ban. On December 13, 2000, the USDA wrote to the CFIA, providing assurances that the border would be open to imports from P.E.I. Unfortunately, the USDA did not implement the terms of this letter. Following further discussions, USDA officials wrote again to the CFIA on December 29, 2000, establishing more restrictive conditions than those described in the December 13 letter.

On January 2, 2001, Canada requested NAFTA consultations with the United States on the USDA restrictions. These consultations were held on January 17, 2001. Canada's position is that the U.S. restrictions have no scientific justification, constitute an unjustified barrier to trade, and violate the United States' international trade obligations. Canada has made high level representations to the U.S. Administration to remove the restrictions.

Wheat

In response to a petition by the North Dakota Wheat Commission, the U.S. Trade Representative (USTR) initiated, on October 23, 2000, an investigation under Section 301(b) of the U.S. Trade Act regarding Canadian wheat trade policies and practices including those of the Canadian Wheat Board (CWB). The investigation can take up to 12 months to complete. Previous allegations have been found to be without substance, despite numerous investigations by U.S. agencies. Indeed, Canadian wheat is purchased in the United States by customers who value its quality and consistency. Canada has made it clear to U.S. authorities that we will not restrict wheat exports.

Canadian wheat exports to the United States are an important part of a mutually-beneficial, highly integrated North American agriculture and agri-food market. The Canadian and U.S. governments are committed to a regular exchange of information on bilateral and international grains trade, as a means of dispelling misperceptions about the impact of Canadian exports on the U.S. market, and of dealing with other issues such as trade practices in third-country markets. In addition, Canada continues to encourage increased consultation and co-operation among industry groups on both sides of the border.

Exports of Meat

In 2000, bills were introduced in Congress requiring country of origin labelling (COL) for beef, lamb and pork, which would have had potential negative consequences for Canadian exports. These bills did not become law. Last year, the United States released two studies which concluded that country of origin labelling of meat is certain to impose costs on producers, processors and consumers and is uncertain to produce benefits. Canada and the United States agree that country of origin labelling requirements on agricultural and food products should be consistent with obligations under the NAFTA and the WTO. Canada will continue to oppose legislative amendments that would require mandatory country of origin labelling requirements for imported meat.

The U.S. Department of Agriculture (USDA) is under strong pressure from domestic producers to discontinue its official grading of imported beef and lamb carcasses. This would adversely affect Canadian exports and impact the highly integrated North American meat industry. Canada will continue to oppose the cessation of USDA official grading for imported beef and lamb carcasses.

North Dakota State Measures

In July 2000, North Dakota published proposed regulations to implement changes to its animal health legislation that were enacted in 1999. The proposed regulations would have imposed additional certification requirements that would have adversely affected Canadian livestock exports. Canada considered that these requirements would be inconsistent with U.S. international trade obligations. Canada made several representations to the U.S.

Administration and North Dakota objecting to the requirements. In December, North Dakota decided to revise the proposed regulations. According to North Dakota officials, the changes are intended to resolve the issues raised by Canada. North Dakota officials have indicated that they will be publishing the revised regulations for a further 60 day public comment period this spring. Canada will have an opportunity to review the revised regulations once they become public and to determine the need for further representations.

During the 2001 legislative session, North Dakota also introduced HB 1287, which would make it illegal to import any crops, crop products or plants

into North Dakota from another country, without certification that they do not contain any pesticides not approved for use in the United States, or that are in excess of established federal limits. Canada's view is that this legislation, if enacted, would violate U.S. international trade obligations. Canada has made representations to the U.S. Administration and to North Dakota authorities objecting to the bill. As of March 2001, the North Dakota state agriculture committee had not yet voted on HB 1287.

Hold and Test

Under the U.S. Food and Drug Administration's hold and test policy, the U.S. FDA regularly holds agri-food shipments imported into the United States, pending the results of laboratory testing for compliance with U.S. food laws and regulations. Delays resulting from the FDA's testing procedures are trade-disruptive and costly for Canadian exporters. Canadian and U.S. officials agreed to undertake a co-operative program to further enhance food safety in a manner which recognizes the two countries' shared food safety policies and capacities, as well as their increasingly integrated market for agriculture and food. Bilateral discussions are continuing.

Sugar and Sugar-Containing Products

Under the December 1998 Canada-U.S. Record of Understanding and Action Plan on Agricultural Trade (ROU), the United States agreed to recognize Canadian export permits as a condition of entry into the United States for sugar-containing products (SCPs). The United States implemented this ROU commitment on February 4, 2000. However, on March 17, 2000, the United States published in the Federal Register a "proposed rule" which provided for the licensing of imports of SCPs. This proposed rule would have negated any gains achieved with respect to the ROU, and would also have undermined the benefits of the 1997 bilateral sugar agreement. The Government of Canada filed a formal submission with the United States Department of Agriculture (USDA) on May 17, 2000. On September 25, 2000, the USDA posted a Federal Register Notice withdrawing the proposed rule.

Sugar Syrups

In 1999, U.S. Customs Service sought to reclassify sugar syrups so that the imports of the product

would be classified under a tariff line subject to restrictive U.S. sugar tariff rate quotas. The U.S. Court of International Trade overturned this proposed reclassification in October 1999. In March 2000, the U.S. government and the U.S. Sugar Beet Association filed an appeal with the U.S. Circuit Court of Appeals of the U.S. Court of International Trade's ruling. In the meantime, the affected Canadian company continues to ship its product to the United States without being subject to restrictive U.S. measures. However, there have been attempts to push legislation through Congress that would expand the scope of the U.S. sugar tariff quota to capture sugar syrups. The Canadian Embassy in Washington has written to the USTR and key Members of Congress to remind the United States that such a unilateral expansion of the coverage of the TRQ would be contrary to its WTO obligations. Canada continues to monitor this issue.

Electricity

U.S. Congressional efforts to restructure the electricity sector appear stalled in disagreement over federal and state jurisdiction. In the absence of federal legislation, focus will shift to states which may proceed with initiatives inconsistent with the trade agreements and potentially affecting access for Canadian exporters. As with earlier federal legislation, Canada remains concerned with requirements to provide reciprocal access for retail sales and provisions excluding Canadian-origin products and hydro-electric power from U.S. renewable energy markets. The Administration may act by regulation in 2001 to establish continent-wide systems reliability standards and regional transmission organisations (common carriers), two issues that could affect Canadian sovereignty and jurisdiction. Canadian advocacy in this sector has raised U.S. awareness of a North American electricity market and the impact that discriminatory measures could have on this market.

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

Exports of Hemp Products

Production of industrial hemp is not permitted in the United States, however, imports of hemp products have been allowed. The United States market for hemp products is estimated at approximately \$50 million, which has been supplied primarily by the European Union. It is estimated that 90 percent of Canadian processed hemp is exported to the United States.

Canadian exporters of processed hemp products had again experienced problems in accessing the U.S. market early in 2000 with seizures of hemp shipments based on findings of trace amounts of delta-9-tetrahydrocannabinol (THC), the active ingredient in marijuana. Canada has allowed production of hemp products for human consumption since 1998 based on regulations requiring a licence for the manufacture of industrial hemp derivatives and setting standards for products containing these derivatives at less than 10 parts per million of THC. This is a level far below a concentration that would have a psychotropic effect. The border problems were resolved in April 2000, allowing product to continue to U.S. destinations. The continuing threats of a U.S. zero THC tolerance policy resulting in seizures at the U.S. border, is having a detrimental effect on the continued development of the Canadian hemp industry.

In November 2000 the Department of Justice published a notice of proposed rule making indicating an intent to simultaneously issue three new rules in 2001 that could effectively shut down imports of hemp products for human consumption into the United States if enacted. The Canadian government is very concerned with these actions and is consulting closely with our industry on the matter and will continue to make representations to avoid any future trade problems.

Forest Certification

There is a growing demand in the U.S. marketplace for wood products to be accompanied by some form of evidence that the product has been manufactured using wood that comes from sustainably managed forests. The evidence most frequently encompasses some form of forest certification and/or product labelling.

Certification should not be used as a market access barrier. Canada will continue to monitor our access to key markets with a view to ensuring that certification remains a voluntary marketplace activity and that criteria consistent with Canadian forest values are used to evaluate Canadian products.

International Traffic in Arms Regulation (ITAR)

In April 1999, the United States amended the Canadian Exemptions section of the International Traffic in Arms Regulation which imposed U.S. export licence requirements on a broad range of U.S. defence goods and technology to Canada. Prior to that time, most U.S. defence goods and technology could be exported to Canada licence-free.

On June 16, 2000, the Minister of Foreign Affairs and the U.S. Secretary of State announced agreement on measures to strengthen our respective defence trade control regimes. As part of the resolution, Canada will harmonize its Export Control List with the U.S. Munitions List; strengthen controls over re-exports of U.S. controlled goods; and, institute a new registration system for persons requiring access in Canada to controlled goods. A *Defence Production Act* amendment, authorising a registration system, received Royal Assent on October 20. Regulations designed to implement the registration system, as well as harmonise Canada's export control system with that of the United States, were published in January 2001.

In exchange for these measures, the United States has agreed to reinstate many of the provisions of the International Traffic in Arms Regulation "Canadian Exemptions", to allow licence-free access to these goods and technology to not only Canadian citizens, but Canadian dual-nationals and permanent residents. Certain issues still remain outstanding. These include restrictions on citizenship under Technical Assistance Agreements (TAA) and export licences; and, the exclusion of Missile Technology Control Regime (MTCR) Category II items in the ITAR Canadian Exemptions. Canadian industry has been consulted throughout this process.

Uranium

Following intervention by the Government of Canada and the Province of Saskatchewan, and extensive consultations with various U.S. government agencies, the Department of Commerce

withdrew a proposed Amendment to the Uranium Suspension Agreement that would have increased the U.S. quota on imports of uranium originating in Russia from 4 million to 10 million pounds per annum. The amendment would have further depressed prices in the uranium market and impaired the ability of Canadian uranium producers to compete in the U.S. market, putting at risk recent domestic investments.

MONITORING DEVELOPMENTS AFFECTING CANADIAN INTERESTS

The Record of Understanding on Agriculture

The December 4, 1998, Canada-United States Record of Understanding (ROU) and Action Plan has continued to contribute to the management of bilateral agricultural trade relations. The Consultative Committee on Agriculture established under the ROU met twice in 2000, as did the Provinces/States Advisory Group. Intensified communications resulting from these meetings have helped to better understand the bilateral issues, and have accelerated work to define solutions to emerging problems. For example, pesticide regulatory agencies on both sides of the border are continuing to work together to harmonize their approval processes. The Second Pesticide summit, held in Ottawa in April 2000, provided a forum to co-ordinate the development of solutions to trade issues arising from differing regulatory requirements in both countries.

Other positive aspects of the ROU include: the in-transit grain rail program, which moved 6,998 rail cars (approximately 650,000 tonnes) of U.S. wheat, barley and oats through Canada in 1999 and has already shipped almost 4,400 rail cars (over 400,000 tonnes) over the first eight months of 2000; the harmonization of pesticide regulations; the joint publication of data concerning U.S.-Canada cattle inventory; and the expansion of the Restricted Feeder regulations (formerly known as the Northwest Cattle project) to include additional states and provinces.

Under the action plan, both sides have agreed to remove a range of measures that restrict access for livestock, equine semen, horticultural products and nursery stock. The agreement also addresses industry concerns related to pest control products. Canadian and U.S. agencies responsible for these

issues have agreed on work plans to increase information exchange and the harmonization of their regulatory systems.

Agricultural Subsidies

Canada is increasingly concerned about the very high levels of domestic support to agriculture in the United States, especially to grains and oilseeds production, which contributes to the worldwide supply and demand imbalance that keeps prices down. That is why Canada is pursuing in the WTO negotiations significant improvements in international disciplines on trade- and production-distorting domestic support. In addition, Canada supports the view that agricultural export credits must be brought under effective international discipline, with a view to ending government subsidization of such credits. Finally, Canada remains concerned about the possibility of increased use by the United States of export subsidies in third-country markets for certain commodities. Elimination of such subsidies is a priority for Canada in the WTO Agriculture negotiations.

Michigan Single Business Tax

On June 22, 2000, the Michigan Department of Treasury released Revenue Administrative Bulletin (RAB) 2000 – G, “Single Business Tax Base for a Foreign Person”. The RAB described the provisions of the Single Business Tax (SBT) that relate to the tax base of foreign (out-of-state) persons, with the exception of trucking companies, operating in the state of Michigan for tax years beginning on or after January 1, 2000. For the most part, the RAB was non-contentious, due, in large part, to the negotiated title passage settlement reached in June 1999 which narrowed the SBT tax base of Canadian firms significantly. Nevertheless, the Government of Canada continues to seek a number of clarifications from the Department of Treasury with regard to the tax liabilities of foreign persons.

On August, 16, 2000, the Department of Treasury released RAB 2000 – H, SBT Foreign Transportation Services. On the one hand, RAB 2000 – H incorporated “world-wide miles” into the formula used by foreign transportation companies to calculate their tax base, thereby reducing the SBT liability of Canadian trucking companies to some degree. On the other hand, there remained a number of

important concerns which were not addressed by the Revenue Administrative Bulletin. Following an intense period of lobbying and negotiation between officials from the Canadian trucking industry, the Canadian government, and the State of Michigan, on October 3, 2000, a deal was reached with the Department of Treasury to delineate the tax base of Canadian trucking companies for SBT purposes. The deal, which changed the compensation side of the tax base, will see the liability of Canadian truckers in the state fall by an average of two thirds from the existing SBT legislation.

Canadian firms must be aware of their tax liability in Michigan. For more information, please visit the following Web site www.treasury.state.mi.us/lawrules/rabs/rabindex.htm

Marine Mammal Protection Act

The Marine Mammal Protection Act (MMPA) prohibits trade in marine mammal products regardless of species’ conservation status, and therefore appears to be inconsistent with U.S. international trade obligations. For example, under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), neither ringed nor harp seals are considered threatened or endangered in any way, and therefore no monitoring or trade restrictions are justified on the movement of products from either species. However, under the MMPA, both species are restricted, so that no imported product made from animals of these species is allowed into the United States. Canada has communicated its concerns to the U.S. Administration.

Other U.S. State Taxes

Canadian trucking companies currently face an increasing level of activity by various U.S. state tax authorities. In some cases, the taxes these states are imposing on foreign (out-of-state) corporations are creating problems, including double taxation, retroactive application, and compliance concerns, similar to those encountered by Canadian firms as a result of the Michigan Single Business Tax. The Government of Canada will continue to monitor taxation developments at the state-level to ensure that these taxes are applied in a fair and consistent manner, in accordance with internationally accepted taxation principles.

Legislative Interference

There remains a potential for legislative interference with transnational contracts, which could impact negatively on Canadian exports. For example, in 1999, Canada opposed an amendment to a federal bankruptcy bill aimed at cancelling Hydro-Quebec's \$4-billion Vermont contract. Canada was successful in opposing this amendment, which could have set a dangerous precedent of legislative interference with transnational contracts. Canada will continue to monitor any similar actions in the U.S. Congress.

OTHER ISSUES

Customs and Administrative Procedures

Work continues between Canada and the United States on initiatives under the Shared Border Accord. Officials from both countries are actively engaged in promoting use of programs for low-risk travellers, simplifying the process for in-transit commercial goods, and exploring the use of technology and the possibility for joint inspection facilities. In November 2000, a harmonized pilot was launched to expedite transit for pre-approved, low risk travellers using the bridge connecting Sarnia, Ontario to Port Huron, Michigan. Features of the NEXUS program include common eligibility requirements, a joint enrolment process, single application form and participant card and similar sanctions. Within the Canada-U.S. Partnership (CUSP) high level dialogue is proceeding among governments, border communities and stakeholders toward establishing a common vision for border co-operation. In 2000, meetings of the CUSP were held in April in Niagara/Buffalo and in June in Vancouver. These CUSP consultations confirmed the three guiding principles of border co-operation which are: streamline and harmonize border policies and management; expand co-operation at and beyond the border and collaborate on common threats outside Canada and the United States. The CUSP will continue to meet in 2001.

Intellectual Property

Under Section 337 of the U.S. 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. Section 337 provisions contain more direct remedies against alleged infringers than those available in U.S. domestic courts, and the administrative procedures in the U.S. International Trade Commission 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 U.S. International Trade Commission.

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, which thereby face additional procedural burdens in defending against allegations of intellectual property infringements. The Canadian government will continue to monitor closely specific cases, including potential international trade disputes on the matter, in order to determine what steps might be taken to ensure that Canadians are treated in accordance with U.S. international trade obligations.

Trade Remedies

The Canadian Government continues to monitor developments in the United States pertaining to trade remedies to ensure that any new rules, and the implementation of existing ones, conform with U.S. international trade obligations. Canada will continue to oppose legislation such as a provision of the Agricultural, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2000 (the Byrd Amendment) which provides for the distribution of anti-dumping and countervailing duties to the domestic producers afforded import protection by such duties. Further, Canada made specific representations on Section 29 of the Crude Oil Windfall Tax Act of 1980 which directly subsidizes U.S. coal exports; on changes to the Russia/U.S. agreement suspending an anti-dumping duty order; on changes to the format for the questionnaire used by the U.S. Department of Commerce in its countervailing duty investigations; on the North Dakota Wheat Commission's petition for an investigation under Section 301 of the U.S. Trade Act of 1974, as amended, investigation regarding Canadian wheat marketing practices; as well as on several sunset review proceedings regarding anti-dumping and/or countervailing duty orders

in place on Canadian products. Of the five reviews completed in 2000, three resulted in continuation of the orders while the two others resulted in revocation. Of the fifteen sunset reviews of U.S. anti-dumping and countervailing duty orders in place on imports from Canada prior to 1995, all but five have been revoked. Finally, Canadian officials assisted Canadian producers of sodium sulphate by offering advice on specific aspects of the anti-dumping duty investigation conducted by the United States during the period of review.

Trade Remedy Investigations

In 2000, only one anti-dumping investigation was conducted by the United States on imports from Canada: sodium sulphate. The investigation was terminated without the application of additional duties. Canada participated in the investigation by the U.S. International Trade Commission as to whether a safeguard measure on wheat gluten, from which imports from Canada were excluded further to the NAFTA, should be extended. Over the same period, Canada completed three anti-dumping investigations against products from the United States: contrast media; refrigerators, dryers and dishwashers; and bingo paper. The first two resulted in the imposition of anti-dumping duty orders while the other (bingo paper) resulted in a price undertaking. As well, Canada initiated anti-dumping and countervail investigations of imports of certain U.S. grain corn into western Canada. On March 7, 2001, the Canadian International Trade Tribunal (CITT) issued a finding that the subject grain corn imports have not caused and are not threatening to cause injury to Canadian producers.

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 the Buy American provisions. In addition, both long-standing and ad hoc legislative provisions, as well as conditions attached to funding programs, impede access for Canadian suppliers. The need for progress in both assuring and improving access for

Canadian suppliers at the U.S. federal, state and local levels remains a key issue for provincial governments in determining whether to offer to open Canadian provincial and local government markets.

Small Business Set-asides

The Canadian government remains concerned about the extensive and unpredictable use of exceptions to the NAFTA and the WTO Agreement on Government Procurement for small business set-asides. Canadian suppliers face the ever-present possibility that government markets that they have successfully developed and supplied competitively will subsequently be closed through the application of the set-aside exception. The definition of a U.S. small business varies by industry, but is typically 500 employees in a manufacturing firm (up to 1,500 employees in certain sectors) or annual revenues of up to US\$17 million for a services firm. Recently, U.S. federal departments and agencies have not been meeting their target of awarding 23 percent of contract dollars to small business. This has already resulted in new directives on enforcement of the existing programs and may result in pressure to create new programs. In addition, the U.S. government requires that bids from contractors and major subcontractors include plans to subcontract work to U.S. small business. Canada is also concerned that the use of such subcontracting plans impedes Canadian access to the U.S. market. We will continue to press the Administration on this matter.

Buy American

Buy American provisions are applied extensively to U.S. federal government procurement that is not covered by the NAFTA or the WTO. Since these trade agreements only require equal treatment of Canadian offers on direct purchases by the U.S. federal government included in the agreement, a wide range of other federal government procurement contains Buy American provisions.

Department of Defence Procurement

Under the Canada-U.S. Defence Production Arrangement and the Defence Development Sharing Arrangement, Canadian industry has access to this huge market for equipment and R&D. This relationship requires continuous vigilance and maintenance to prevent erosion, whether intentional or inadvertent.

Buy American Provisions in Federally-Funded Sub-Federal Procurement

Buy American provisions are attached by the U.S. federal government to federally-funded sub-federal procurement, i.e. by making such provisions a condition of funding to state and municipal organizations. Canada continues to seek improvements to the limited access available to this important U.S. procurement market, which includes transit, highway and aviation projects.

Almost all large transportation contracts in the United States are federally funded but administered by state and local government or private-sector organizations. The Transportation Equity Act for the 21 Century (known popularly as TEA-21) provides funding for these projects through fiscal year 2003. The Federal Transit Administration and Federal Highway Administration (FHWA) grant TEA-21 funds to state and local governments and transportation authorities for transportation projects on the condition that U.S. material and equipment is used. Projects funded by the FHWA require all iron and steel products and their coatings to be 100 percent U.S. manufactured. Projects funded by the Federal Transit Administration require all steel and manufactured products to be 100 percent U.S. content and 100 percent U.S. manufactured. Rolling stock (trains, buses, ferries, trolley cars, etc.) components must be 60 percent U.S. content, with final assembly occurring in the United States. The codification, in 1998, of a definition of "final assembly", formerly left to the discretion of the procuring organization, has resulted in a further narrowing of the opportunities for Canadian suppliers to participate in such projects.

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

State and Local Government Preferences

A wide variety of procurement preferences exist at the state and local level. In 2000, the State of New York amended legislation, resulting in the addition

of Ontario and Quebec suppliers to a list of several U.S. states whose suppliers are excluded from New York State procurement. In addition, many U.S. federal government Buy American provisions are included in state and local procurement when federal funding is provided. Canada remains concerned that access for Canadian suppliers is constrained and unpredictable as a result of these preferences. Canada will continue to press for elimination of U.S. state and local level preferences.

Legislative and Regulatory Changes

Although the United States has largely completed implementing changes made to its acquisition procedures arising from legislation passed in 1994 and 1995, regulations in civilian and defence procurement, which can affect market access for Canadian suppliers, change constantly. Canada continues to press the United States to clarify and resolve potential inconsistencies between its NAFTA obligations and 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. Canada is also concerned about the propensity for U.S. legislators to incorporate restrictive procurement provisions into unrelated legislation, such as appropriations acts, on an ad hoc basis. Often relating to specific products, such action appears to be taken without full consideration of the potential for inconsistency with international trade obligations.

IMPROVING ACCESS FOR TRADE IN SERVICES

Financial Services

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

Telecommunications

Canadian services providers have encountered problems in obtaining licenses to provide telecommunications services in the United States on a cross-border basis. U.S. authorities have raised security concerns regarding the provision of some such services, with resulting delays and a lack of transparency in the licensing process, and the imposition of licensing conditions which impair Canadian exports.

In the light of the lengthy delays some Canadian companies have experienced in gaining access to the U.S. market, Canada will continue to carefully monitor U.S. implementation of its WTO commitments with respect to telecommunications services to ensure that Canadian services providers are subject to timely and transparent licensing procedures.

Shipping

A number of maritime laws (collectively known as the Jones Act) impose a variety of limitations on foreign participation in the U.S. domestic maritime industry. Canada's particular concerns relate to the U.S.-built requirement, which precludes the use of Canadian-built vessels in U.S. domestic marine activities. 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. These restrictions (coupled with defence-related prohibitions of the Byrnes/Tollefson Amendment) limit Canadian participation in U.S. shipping activities.

Maritime transportation services will likely form part of the discussions in the current negotiations on services in the World Trade Organization, and Canada will continue to use every appropriate opportunity to raise U.S. limitations on maritime transportation services that adversely affect Canadian interests.

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. credential-issuing organization verifying the person's professional competency and proficiency in English. An interim rule is

currently in place that affects only those health-care workers seeking admission to the United States on a permanent basis to perform services in the fields of nursing and occupational therapy. An indefinite waiver of inadmissibility for health-care workers seeking temporary entry remains in effect pending final implementation of the regulations. This waiver is a temporary solution, and Canada continues to press its view to the U.S. Administration and Congress that the duplicative certification requirements of Section 343, as it applies to those seeking temporary entry, would violate U.S. NAFTA obligations. Our ultimate goal is to see the U.S. Administration maintain a permanent waiver of inadmissibility for those health-care workers seeking temporary admission to the United States. There has been no recent action on Section 343 by the United States. Canada has indicated its concern regarding the lack of progress on implementation of a permanent waiver of Section 343, and will continue to pursue the issue.

STANDARDS-RELATED MEASURES

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

Canada is seeking more complete implementation by the United States of its NAFTA and WTO sub-federal commitments, with a view to the upgrading or modernization of U.S. sub-federal 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 in order 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 voluntary consensus standards for the North American market as a substitute for national regulatory requirements. These standards initiatives will be joined by moves designed to provide appropriate conformity-assessment services.

MEXICO

Overview

With his historic victory in the presidential election of July 2, 2000 President Vicente Fox has advanced a dynamic and energetic vision for a "new" Mexico. President Fox is accelerating the pace of reforms and working to further improve the investment climate in Mexico by introducing more transparent rules and improving security. Attracting foreign investment is a priority for the new administration, along with job creation, fiscal reform and the elimination of the budget deficit, government restructuring, further privatization, further reducing inflation, restoring credit markets, and a more equitable redistribution of wealth.

President Fox inherits a fairly solid economic and trade legacy. Over the last decade, Mexico has undergone the most significant economic reforms since its independence. The most courageous and meaningful has been NAFTA, which has transformed Mexico into a heavily trade-based economy. The United States accounted for over 88 percent of its exports in 1999. The success of NAFTA has been followed by the conclusion of six additional free trade agreements within the western hemisphere⁷ and three outside, namely with the European Union and Israel effective July 1, 2000, and with the European Free Trade Association (EFTA) likely to enter into force in July 2001. Significant market liberalization, structural reforms and privatization

have strengthened the Mexican economy, increased competition, and improved the climate for investment. Consistent and sound monetary and fiscal management characterized the six-year regime of President Zedillo.

These economic and trade initiatives now allow Mexico increasingly to differentiate itself from other Latin American and emerging country markets, to enjoy continued investor confidence and to avoid both external shocks and the economic crisis which traditionally have accompanied the end of a presidential term. Economic performance has been strong. Forecast growth for 2000 could reach 7 percent (versus 3.7 percent in 1999), and President Fox has set a target of 4.5 percent for 2001. Factors driving this growth include high export levels to a strong U.S. economy, better oil prices and increased production, increasing domestic consumption and growth in investment. Inflation had dropped to 9 percent by the end of 2000, with a target of 7 percent for 2001.

Canadian relations with Mexico have expanded in parallel to Mexico's own growth and liberalization. Since NAFTA implementation to the end of 2000, two-way trade has increased by 27 percent. In 2000, total two-way trade was \$14 billion, with Canadian exports to Mexico of \$2 billion, an increase of 27 percent over 1999, and Mexican exports to Canada of \$12 billion, an increase of 27 percent over 1999. (Discrepancies between trade figures from Statistics Canada and those from Mexico's agency, INEGI, are substantial. Research by Statistics Canada and its Mexican and U.S. counterparts point to the tendency to record the United States as the final, instead of intermediate destination, of a large quantity of Canadian exports to Mexico, thereby significantly understating the level of Canadian exports to Mexico.)

On the investment side, Canadian direct investment in Mexico has almost tripled since 1995 and approached \$3 billion in 1999. The primary sectors for this investment are energy, mining, financial services and manufacturing. Mexican investment in Canada reached \$500 million in 1999.

The Canada-Mexico Joint Ministerial Committee (JMC) was established in 1968 and meets every year or two. The JMC is the key bilateral forum for ministerial exchanges, discussion and co-operation

⁷ Group of Three (Mexico, Colombia, Venezuela); Costa Rica; Bolivia; Nicaragua; Chile; Northern Triangle (Honduras, Guatemala and El Salvador)

on matters of common interest in the political, commercial and economic fields. The most recent JMC was held in Ottawa in February 1999.

Sustained growth and further liberalization should create a range of opportunities for Canadian companies in sectors such as transportation, electrical power, oil and gas, the environment and agri-food.

Market Access Results in 2000

- The Mexican market for fixed and mobile satellite telecommunications services is now completely open to Canadian firms following the coming into effect of the 1999 Canada-Mexico agreement and the signing of technical protocols.
- Further to an agreement by the NAFTA partners to accelerate the elimination of tariffs, on January 1, 2001, Mexico eliminated tariffs for such products as batteries, certain pharmaceuticals and chemicals. Under the NAFTA, these tariffs had originally been scheduled to be eliminated on January 1, 2003. Canadian exporters of these products will benefit from improved access to the Mexican market.
- The Mexican government last year responded to concerns expressed by Canada on delays being encountered by Canadian suppliers for quota certificates for importation of beans by implementing an auctioning system (three auctions a year) for the allocation of TRQ for dry beans. This management of the tariff rate quotas ensure for Canadian exporters a more predictable and transparent mechanism. Canada hopes that Mexico will consider the option of having an open market throughout the year.

Canada's Market Access Priorities for 2001

- continue representations to remove the ban on Prince Edward Island and New Brunswick seed potatoes and for resumption of trade based on the 1998 bilateral agreement;
- clarify Mexican requirements for certification of processed foods;
- continue to monitor Mexican legislation and regulations with respect to the labelling of the products of biotechnology;
- continue to urge Mexico to finalize its list of services excluded from the NAFTA government procurement chapter and to resolve issues related to implementation of the chapter;

- continue discussions for improved Canadian access for frozen french fries and apples;
- monitor the implementation of the NAFTA panel decision on the Mexico-U.S. dispute over cross-border trucking services and investment, and continue to promote market access for Canadian companies;
- work toward further harmonization and simplification of customs procedures and facilitation of cross-border movement of goods;
- work with Mexico to ensure more transparent and consistent legislation and regulation for Canadian investments in Mexico; and
- continue ongoing work between respective statistical agencies to reconcile trade data.

IMPROVING ACCESS FOR TRADE IN GOODS

Seed Potatoes

Canada and Mexico concluded a bilateral phytosanitary agreement in 1998. The agreement worked well for two years. However, in December 2000/January 2001, Mexico imposed bans on imports of New Brunswick and Prince Edward Island potatoes on alleged phytosanitary grounds. Canada has been making high level representations objecting to these recent actions. Canada's position is that there is no scientific justification for these measures. We will continue representations to Mexico to allow trade from all provinces to resume under terms of the 1998 agreement.

Apples

Mexico has requested renegotiation of the work plan for Eastern Canadian apples. Canadian officials will meet with their Mexican counterparts to renew the agreement and maintain access for Eastern Canadian apples.

Frozen French Fries

Under the NAFTA, Mexico established a TRQ on french fries with an over-quota tariff of 20 percent. This tariff is due to be eliminated in 2003. Demand for frozen potato products in Mexico, especially from food service chains, has been growing rapidly and has been supplied by imports. However, market access for frozen french fries has been limited by

the small size of the TRQ, while the 20 percent over-quota tariff imposes costs to the importers and consumers. Canada has raised this issue with Mexico on several occasions and will continue bilateral discussions aimed at obtaining better market access for this product.

Processed Food Certification

Canada and Mexico agreed at the September 2000 meeting of the SPS Committee to have further bilateral discussions on Mexico's certification requirements for processed food. This continues to be a priority for Canada as we need to clarify Mexican requirements for some processed foods and discuss a range of related issues.

Customs-Related Issues

Mexico requires that all goods, prior to entering the country, be customs-cleared and have any duties paid on the U.S. side of the border, adding extra time and costs to all shipments. Mexico also currently lacks an expedited process to deal with the movement of small packages and courier goods across its border. Canada will explore ways to deal with systemic border issues.

IMPROVING ACCESS FOR TRADE IN SERVICES

Professional Services

The engineering professions of the NAFTA parties signed a mutual recognition agreement (MRA) in June 1995 on the licensing and certification of engineers. This agreement has not been implemented on a trilateral basis due to lack of support in the United States. (Only Texas has taken steps to implement the mutual recognition agreement.) The relevant engineering bodies of Canada (the Canadian Council of Professional Engineers (CCPE)) and Mexico have been ready to implement the agreement for over two years. In the absence of consensus among U.S. engineering interests, the CCPE and its Mexican counterpart have decided to implement on a bilateral basis. This was confirmed by an exchange of letters between our respective Ministers of trade in early 1999. Canada will work with Mexico to ensure that the bilateral agreement is implemented by the Mexican Ministry of Education.

A mutual recognition agreement on foreign legal consultants has not been implemented due to objections in the United States. Canada will work with Mexico to explore whether this mutual recognition agreement can be implemented bilaterally.

Financial Services

NAFTA requires Canada, the United States and Mexico to meet annually to address financial services issues. Recognizing that Mexico has reservations under NAFTA, Canada would like to begin discussions with Mexico on the establishment of new categories of securities firms that would be open to Canadian participation.

On the insurance side, Canada will continue working toward facilitating the provision of seamless insurance transactions for motor carriers involved in cross-border trade between Canada, the United States and Mexico.

Trucking

Under Chapter 12 (cross-border trade services) of the NAFTA, the United States agreed to open its border states [Texas, Arizona, New Mexico and California] to Mexican trucks carrying international cargo by December 18, 1995, and to its entire territory by January 1, 2000. Notwithstanding these NAFTA obligations, the United States refused to approve any new applications from Mexican trucking firms for operating authority into the United States. With the exception of five companies that had grandfathered rights (i.e. operating authority prior to 1982) and one Mexican carrier that had transit rights to operate through the United States into Canada, American law currently prohibits Mexican trucks from travelling further than 20 miles into U.S. territory. Mexico, facing protectionist pressures from its trucking industry, responded by imposing restrictions on cross-border U.S. trucking and refusing access to U.S. and Canadian trucking companies. While access to the American market for Canadian truckers was not affected, Canadian commercial interests suffered because of the dispute between Mexico and the United States. Canadian trucking companies interested in increasing their access to the Mexican market were unable to do so because of the dispute.

In September 1998, Mexico requested the establishment of an Arbitral Panel under Chapter 20 of the NAFTA. The Panel, which was formally established January 2000, considered submissions from the two disputing Parties and Canada, participating as an interested third party. The decision of the Panel was released on 6 February 2001. It ruled that the United States was in violation of its NAFTA obligations by refusing to allow Mexican trucks to operate long-haul routes between U.S. border states and Mexican destinations. The Panel acknowledged that Mexico's safety inspection system is less rigorous than that of the United States, but added that the United States had entered into NAFTA with full knowledge of those differences. Based on NAFTA obligations, the Panel concluded that the United States should not be placing broad bans on all Mexican applicants but should examine each application on a case-by-case basis to see whether the applicant meets motor vehicle safety standards.

The opening of the U.S./Mexico border to cross-border would allow interested Canadian and Mexican trucking companies access to each other's markets, and access to the Mexican-U.S. trucking market for Canadian carriers.

Access to Canada for Mexican and American cross-border trucking services remains open, provided that trucks meet Canada's transportation requirements, especially safety.

OTHER ISSUES

Government Procurement

According to NAFTA Annex 1001, Mexico should have developed, consulted with other Parties and completed its list of excluded services by July 1, 1995. This list is still pending, creating uncertainty for Canadian business. Canada will continue to press for Mexico to finalize its schedule of excluded services as early as possible.

The implementation of the NAFTA has brought improvements to the transparency and openness of the Mexican procurement process. However, Canada would like to work with Mexico to resolve certain concerns that have been raised over bid notification periods.

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 these set-asides.

Bid Notification Periods

Chapter 10 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 in 1997, and further work in 1999, have raised concerns about Mexico's compliance with the notification obligations. Canada continues to press Mexico for a response to our concerns.

FREE TRADE AREA OF THE AMERICAS (FTAA)

Canada is one of the 34 democratic countries of the hemisphere engaged in negotiating the Free Trade Area of the Americas (FTAA). The FTAA negotiations, which were launched in April 1998, hold the potential to create the world's largest free trade area, with 800 million people and a combined gross domestic product of nearly \$17 trillion. The FTAA would build on Canada's free trade ties with the United States, Mexico and Chile and its expanding links elsewhere in the hemisphere, allowing Canada to take full advantage of emerging hemispheric markets. The FTAA will co-exist with pre-existing agreements such as NAFTA. This means that Canada's trade with the United States and Mexico will continue to be governed by the NAFTA. The FTAA would substitute for the NAFTA in these relations only if all three parties agreed. Even excluding Canada's NAFTA partners, the region is already a \$4 billion export market for Canada, and it is the destination for \$45 billion in Canadian direct investment (representing 17.5 percent of Canada's total direct investment abroad). The negotiations are to conclude by 2005.

The origins of the FTAA initiative date back to the first Summit of the Americas, held in Miami in December 1994. The Summit process was established to strengthen co-operation among the community

of nations in the Americas, with the objective of promoting prosperity, democracy and development throughout the hemisphere. Detailed Plans of Action were endorsed by Leaders at both the Miami and Santiago Summits, addressing education, democracy and human rights, economic integration and free trade, poverty and discrimination and the environment. The FTAA is the most visible element of the Summit process, but its principal objectives – growth and development through enhanced economic integration – reinforce the Summit's broader objectives.

Canada is playing a significant role in the broader Summit process, with the Prime Minister hosting the third Summit of the Americas in Quebec City, April 20-22, 2001. Canada's leadership role as first Chair of the negotiations was seen as a key opportunity to demonstrate our commitment to strengthen ties within the hemisphere, as well as to further the trade liberalization agenda. With the conclusion of Canada's chairmanship of the negotiations at the November 1999 Ministerial Conference in Toronto, concrete progress was realized and the groundwork laid for the next phase of the negotiations. The current phase of the negotiations, chaired by Argentina, concluded with the Ministerial held in Buenos Aires in April 2001. Canada continues to play an active leadership role in the negotiations and currently chairs the Negotiating Group on Government Procurement, and serves as Vice-Chair of both the Negotiating Group on Competition Policy and the Joint Government-Private Sector Committee of Experts on Electronic Commerce. Chairmanship of the FTAA process will pass to Ecuador on May 1, 2001. Logistical support for the negotiations is provided by an Administrative Secretariat, located as of March 1, 2001, in Panama City.

FTAA results in 2000

- Negotiators carried out Ministers' instructions to produce a draft, square-bracketed, text of the various issues areas of the FTAA Agreement for Ministerial review in Buenos Aires in April 2001.
- The Inter-American Development Bank approved a multi-million dollar fund to assist in the implementation of the eight customs-related business facilitation measures agreed to at the Toronto Ministerial in November 1999.

- On-going implementation by all countries of the customs-related business facilitation measures agreed to by Ministers in Toronto in November 1999.

Canada will seek in 2001

- to advance agreement on an integrated draft text of the FTAA Agreement;
- to ensure greater transparency in the FTAA negotiating process by seeking consensus for the release of the draft text;
- to seek to reinforce efforts of Hemispheric Environment and Labour Ministers to enhance co-operation in these areas;
- to obtain consensus among FTAA participating countries on the establishment of an interim FTAA committee on sanitary and phytosanitary measures (SPS) to facilitate FTAA countries' day-to-day SPS activities; and
- to reach an agreement among FTAA countries on a more effective mandate for the FTAA Committee of Government Representatives on the participation of Civil Society.

MERCOSUR

Overview

Brazil, Argentina, Paraguay and Uruguay formed the Southern Cone Common Market (Mercosur) in 1991 under the Treaty of Asunción to provide the following by 2006: free circulation of capital, labour, goods and services; a common external tariff (CET); and harmonized macroeconomic and sectoral policies. With 240 million people (compared to 380 million in the NAFTA) this customs union is Canada's largest export market in Latin America. In 2000, two-way merchandise trade between Mercosur and Canada was valued at \$3.3 billion, an increase of 8.1 percent from 1999. Imports from Mercosur increased 11.7 percent in 2000 over 1999. 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 aluminum, oil and gas, mining, power, telecommunications and spirits sectors. Finally, since Mercosur represents

a major potential export market for Canadian manufacturers of information technology and communications equipment, Canada will continue to encourage Mercosur member countries to adhere to the WTO Information Technology Agreement.

Partially harmonized common external tariffs were implemented in 1995, and already about 90 percent of all internal trade is duty-free. The exceptions to the common external tariff, such as hundreds of individual tariff lines for each country, are to be eliminated by 2006. Important areas such as sugar remain exempted. The Adjustment Regime, which set transitional rules for Mercosur trade, has expired (in December 1999 for Paraguay and Uruguay and in December 1998 for Brazil and Argentina). On services, the Mercosur trade ministers approved a framework in mid-December 1997, and detailed negotiations continue. There has been no progress on the free movement of labour component in the Mercosur agreement.

Since its inception, Mercosur has negotiated and entered into free trade agreements with Chile and Bolivia. Mercosur has also reached a framework agreement with the European Union and is looking at 2005 for full implementation. Mercosur countries have also agreed to launch free trade talks with South Africa. At the meeting of twelve South American Presidents in August 2000 in Brasilia, which was initiated by Brazil, Presidents agreed to establish a "senior officials and civilian representatives consultative forum" to explore joint actions in the area of trade and investment with a view to consolidate and deepen integration in the region. Heads of states also agreed to begin negotiations to establish a free trade area encompassing Mercosur and the Andean Community as soon as possible and before January 2002. Suriname and Guyana would eventually be invited to participate, thereby creating an "integrated economic area" throughout South America.

Trade and Investment Cooperation Arrangement (TICA)

Signed in June 1998, the Canada-Mercosur Trade and Investment Cooperation Arrangement (TICA) laid the foundation for enhanced bilateral trade and investment and established a framework for collaboration in the Free Trade Area of the Americas, the World Trade Organization and the Cairns Group. The first Consultative Group meeting called for under the Trade and Investment Cooperation took

place during the FTAA conference in Toronto in November 1999. At that meeting, the Consultative Group agreed to form two committees: one to study customs and technical co-operation; and a second to study "best practices" in trade development and promotion. In addition, it was agreed that a Business Advisory Council would be inaugurated which would provide the mechanism for business representatives to input directly into the Canada-Mercosur trade and investment relationship.

In Canada, meetings with business representatives were held in Calgary, Toronto and Montreal to seek input on the most beneficial activities which might be engaged in under the Trade and Investment Cooperation. A report on these meetings is currently being studied. Canadian and Mercosur officials continue to work toward organizing an Advisory Council meeting by the Spring of 2001 and are currently focussing on appropriate next steps.

BRAZIL

Overview

As a member of the Southern Cone Common Market (Mercosur), Brazil, the largest market in Latin America, attaches great priority to eventual free circulation of goods, services and capital within the four countries. At the present, most agricultural products have the benefit within the Mercosur countries of free access; the exception is sugar, which remains the subject of one of the major trade dispute between Brazil and Argentina. During the South American Presidential Summit in Brasilia, Mercosur leaders discussed reducing the bloc's common external tariff. However, Brazilian officials have suggested that the Brazilian government was considering asking its Mercosur partners to increase external tariffs on agricultural products. The establishment of the Mercosur common external tariff in September 1996, has already resulted in each of the member countries exceeding their bound tariff rates for certain products. As part of this process, Brazil raised the tariff for barley malt to 14 percent, 4 percent above its WTO binding at 10 percent. This situation was exacerbated in the fall of 1997, when the Mercosur common external tariff was increased by 3 percent on almost all products, resulting in an even higher tariff on barley malt of 17 percent – now 7 percent above its WTO bound rate.

Canada has also raised concerns about the imposition of duties and charges on imports that are not notified in Brazil's WTO schedule, such as the Merchant Marine Renewal Tax and its potential trade restricting and distorting effect. The amount of this tax is 25 percent of the ocean freight of imported goods. Since this tax does not apply to domestically produced goods, nor to goods imported over land from neighbouring countries, Canada considers that this tax violates both the national treatment and most-favoured-nation obligations of the GATT. Also, in many cases where Brazil's applied tariff is within the level of its WTO binding, the combination of the Merchant Marine Renewal Tax and the applied tariff would exceed the WTO binding.

In January 1999, the Brazilian government allowed the exchange rate for the Real to float on global currency markets. This move, part of an effort to adjust federal fiscal and monetary policies, led to increased volatility in the Real's exchange rate to the U.S. and Canadian dollars. Canadian exports to Brazil decreased by 35 percent in 1999 due in large part to the currency shift. The value of the Real is stabilizing, however, and as internal prices adjust to its new value and the Brazilian economy begins to expand, Canadian exporters have seen exports rise during 2000 by 2.4 percent. The medium- and long-term prospects for Canadian exporters continue to be strong.

PROEX

In 1999, the WTO Dispute Settlement Body (DSB) ruled that PROEX, a Brazilian export finance program that reduces financing costs for Brazilian exports under its "interest equalization" component, is a prohibited export subsidy as applied to regional aircraft. Brazil's use of PROEX to support exports of regional aircraft has cost Canadian firms up to \$1.5 billion in lost sales annually.

The Dispute Settlement Body gave Brazil until November 18, 1999 to withdraw its illegal measure. In Canada's view, Brazil failed to comply fully with the rulings. Consequently, Canada requested a compliance panel to formally assess Brazilian implementation. That panel confirmed that Brazil had not brought PROEX into compliance with its obligations. Brazil appealed the ruling, which was sustained by the Appellate Body. Brazil also contested Canada's request for WTO authority to impose

countermeasures on Brazil. In August, 2000, a WTO arbitration panel ruled that Canada could impose countermeasures totalling \$344.2 million per year as a result of Brazilian non-compliance with its obligations.

In response to Canada's challenge of PROEX implementation, Brazil challenged the compliance of Canada's revisions to Technology Partnerships Canada (TPC) and EDC's Canada Account, made in response to earlier WTO rulings that the program constituted prohibited export subsidies, as applied to regional aircraft. The panel examining Canada's implementation found that Technology Partnership Canada had been brought fully into compliance with Canada's obligations. This was confirmed on appeal. On EDC's Canada Account, the panel ruled that the revisions made were not sufficiently binding and provided a detailed set of criteria in determining whether export finance transactions will qualify for an exception from WTO disciplines on export subsidies. Canada chose not to appeal the ruling on the Canada Account and is in the process of developing a regulation to implement the guidance of the Panel.

On December 12, 2000, following the breakdown of bilateral negotiation, Canada requested and received WTO authority to impose countermeasures on Brazil up to the level of \$344.2 million per year, an amount deemed appropriate by a WTO Arbitration Panel in August 2000. On that same date, Brazil asserted to the World Trade Organization that recent revisions to PROEX bring that prohibited export subsidy into compliance with its WTO obligations. Canada disagreed with Brazil's assertions. On February 16, 2001, at Canada's request, the World Trade Organization established a panel to examine whether the revisions do, in fact, bring the program into compliance with Brazil's WTO obligations. For the latest update, visit www.dfait-maeci.gc.ca/tna-nac/dispute-e.asp

Customs Valuation

On February 13, 1998, Brazil published Decree No. 2.498/98, implementing the Customs Valuation Agreement of the World Trade Organization. The agreement was further regulated by the adoption of two normative instructions (16/98 and 17/98) issued by the Brazilian Revenue Department, which establish that all goods are subject to verification

and that the process is a selective one. The verification process takes into consideration the declared price of the merchandise, the integrity of the documents presented, information on freight costs, costs relative to loading and unloading of the merchandise and costs relative to freight insurance. In addition, Brazilian authorities may request further documentation from the importer to confirm the declared price of the merchandise. In practice, 80 percent of goods enter Brazil under the automatic licensing system (SISCOMEX) which was introduced in 1997. The remaining 20 percent of goods which require approval (normally goods subjected to health and phytosanitary requirements) are reviewed by the respective decision making ministries. While Brazil has hailed SISCOMEX as a significant step forward in streamlining customs procedures, many exporters and potential exporters find the system cumbersome and inflexible.

Canada will closely monitor how Brazil applies its customs valuation regime on Canadian exports to insure that it is applied in ways that are consistent with Brazil's international trade obligations.

Meat Certificate Validation Requirements

Canadian exporters remain concerned over the fact that the Brazilian consulates must validate inspection certificates for meat products prior to export (so-called consularization requirement). This creates additional delays and costs for Canadians in advance of shipping. Canada does not impose such a requirement on imports from Brazil or any other country. Canada considers that this requirement is contrary to common international practice and that it constitutes an unnecessary barrier to trade. Canada has made numerous representations requesting its removal. Brazilian authorities informed our Embassy in early 1999 that a change in legislation that will remove this requirement was expected in the coming months. Although Brazilian senior government officials have given repeated assurances since then, the requirement remains. Canada will continue to press the Brazilian government to confirm officially that the validation requirement for Canada has been removed.

Mutual Recognition of Poultry Inspection Systems

Canadian exporters have expressed an interest in exporting processed food containing chicken to Brazil. Brazil currently does not allow the importation of most Canadian poultry meat on the grounds that Brazil has not yet reviewed and recognized Canada's meat inspection system for poultry or approved Canadian establishments (Brazil accepts ratite meat and duck meat from Canada). Canadian Food Inspection Agency (CFIA) officials and their Brazilian counterparts are now working on a mutual review of the poultry meat inspection systems. Both countries have completed their information-gathering exercise (Canada in September 1999 and Brazil in December 1999). The next step is for the two sides to review the information, exchange reports and reach agreement on the applicable trade conditions for poultry meat. Completion of the process would allow exports of Canadian poultry (i.e. chicken and turkey) into Brazil and Brazilian poultry into Canada. Bilateral discussions are ongoing.

Brazilian Tariff on Wheat

In 1996, Brazil notified WTO Members that it had withdrawn a market access concession of 750,000 tonnes of duty free importation of wheat from its WTO schedule, and would begin applying a duty, currently set at 13 percent, to importations of wheat. As a major supplier of wheat to Brazil, Canada exercised our right to request compensation for the non-implementation of this concession and the raised tariff. Since that time, Canada and Brazil have held a series of consultations, but have not yet agreed on a settlement. Canadian exports of wheat to Brazil in 1999 were valued at \$182.9 million, a decrease of more than 57 percent from those of the previous year.

Telecommunications Services

Brazil has made considerable progress in the deregulation of its communications industry, and a number of Canadian telecommunications services companies and equipment suppliers are active there. In the 1997 WTO Negotiations on Basic Telecommunications, Brazil made an offer of commitments on telecommunications. However, as a result of the enactment of its 1997 General Telecommunications Law, Brazil submitted in July 2000 a revised Schedule of Specific Commitments, with the request that this replace its earlier offer. Canada is considering this new proposal.

INVESTMENT

In 1999, Canadian foreign direct investment in Brazil was approximately \$3 billion. Due to the significant levels and long history of Canadian investment in Brazil, it is regarded as one of Canada's priority countries for concluding a Foreign Investment Protection Agreement. Negotiations were initiated in June 1998 and are ongoing.

ARGENTINA

Consistent economic policy since 1991 has brought Argentina to a certain level of economic stability. The Currency Convertibility Plan of 1991, which pegged the peso to the U.S. dollar, has successfully reduced formerly rampant inflation and generated local and foreign investor confidence in the overall direction of federal government policy-making. Prospects for Canadian exporters remain relatively promising over the medium- and long-term, however, especially in the investment sector, where Argentina is one of the leading emerging markets for foreign direct and indirect investment opportunities.

However, Argentina remains plagued by a general economic malaise affecting consumers and small and medium-sized enterprises. This has been as a result of a perceived lack of strong leadership and difficulties in policy co-ordination between federal and provincial governments. As well, due to its heavy reliance on Brazil's economy, and that nation's currency crisis in 1999, Argentina's industrial production has suffered considerably, a fact not aided by relative inefficiencies within certain sectors of the economy. This recent sluggish economic performance had dimmed somewhat investor confidence in Argentina, although the US\$40 billion, IMF-sponsored debt refinancing package announced in December 2000 has had a significant effect in reducing Argentina's country risk lending rate and its consequent image in the international bond market.

Bilateral Trade

Bilateral trade between Argentina and Canada increased markedly during the 1990s. From \$173 million in 1989, two-way trade reached \$642 million by 1997 and totalled \$602 million

in 1998. Reflecting the economic recession in Argentina in 1999, trade retracted to \$515 million in 1999 but reached \$596 million in 2000.

Approximately 50 percent of Argentine exports to Canada are agri-food products; a further 23 percent are leather products; and the balance includes steel-mill products and crude petroleum. Canadian exports to Argentina include machinery, agricultural products, minerals and metals, telecom equipment, mechanical and electrical appliances, newsprint, plastics and chemicals. In addition, during the last four years, there have been discussions on co-operation between Canada and Argentina on their common interests in the areas of nuclear energy, geoscience, mining, fisheries, space, high technology and, most recently, in agriculture and the environment.

Prime Minister Chrétien led trade missions to Argentina in January 1995 (\$394 million in business deals) and January 1998 (\$143 million in business deals). During the latter, companies from all 10 provinces signed agreements, a first for Team Canada. The Minister for International Trade, the Honourable Pierre Pettigrew, led a business mission to Argentina in March 1999 and visited Argentina again in July of the same year. Argentine President De la Rúa, accompanied by a business delegation, completed a two-day working visit to Canada in September 2000.

INVESTMENT

Argentina is an important investment location for Canada. In 1999, Canadian direct investment in Argentina totalled \$2.465 billion, relatively unchanged from 1998 (\$2.496 billion). In 1990, Canadian investments in Argentina amounted to a mere \$123 million. Canada now ranks as the seventh most important foreign investor in Argentina. The main focus of this investment has been the oil and gas, mining and energy, agro-industry, banking and telecommunications sectors. The forest sector may soon offer potential for further Canadian investment. Generally, Argentina presents an open market to foreign investors, who are free to enter the country through mergers, acquisitions, greenfield investments or joint ventures. While foreign firms may also participate in publicly-financed R&D programs on a national treatment

basis, Argentina reserves the right to maintain exceptions to national treatment for real estate in border areas, air transportation, shipbuilding, nuclear energy, uranium mining and fishing. Technical discussions on upgrading the existing Foreign Investment Protection Agreement (FIPA) between Canada and Argentina were last held in January 1998. Canada has been pressing to improve the existing agreement to provide additional stability and transparency to an already positive bilateral investment relationship.

The Fiscal Convertibility Law, adopted by the Argentine Congress in October 1999, is another measure that the government introduced to encourage foreign investment in Argentina and to build investor confidence. It was expected to act as a fiscal discipline, mandating strict controls on public sector deficits in the following three years and fiscal balance by 2003. In the fall of 2000, the Chamber of Deputies passed a government-sponsored package of tax cuts aimed at promoting investment and economic growth, which fall in line with requirements for fiscal discipline laid down by the IMF-sponsored aid package. The plan attempts to generate domestic confidence, remove public- and private-market inefficiencies, and improve investment conditions. It has met with limited success thus far, and economic growth is not guaranteed.



Overview

The Canada-Chile Free Trade Agreement (CCFTA) and its two parallel agreements on environmental and labour co-operation are now nearly four years old. On July 5, 1997, under the CCFTA, tariffs were eliminated on the majority of products that make up Canada-Chile bilateral trade. For products on which tariffs are being gradually eliminated, the fourth and fifth round of cuts were made on January 1, 2000 and 2001. Tariffs on most other industrial and resource-based goods will be phased out by 2003.

As a result of a November 4, 1999 agreement, Canada and Chile have accelerated the elimination of tariffs on a selection of products. For example, through the Committee on Trade in Goods and

Rules of Origin, Canada and Chile agreed to accelerate the elimination of tariffs on turkey poult and hatching eggs, feed peas, fresh or chilled tomatoes, peaches, plums, sloes, certain colour pigments, certain articles of plastic and a number of textile products. Eight committees and working groups are in place to carry out any outstanding implementation elements of the Canada-Chile Free Trade Agreement and to resolve problems before they escalate into formal disputes. Progress has also been made in fulfilling CCFTA obligations in such areas as agreeing to model rules of procedure for settlement of disputes, the publication of documentation on temporary-entry procedures and establishing mutually compatible procedures for recognition of test reports in the telecommunications sector. Chile has also demonstrated its willingness to facilitate trade by agreeing to lower its visa-processing fees from US\$650 to US\$100.

The implementation of the Canada-Chile Free Trade Agreement has precipitated a new era of bilateral co-operation with Chile. The total value of two-way trade in goods between Canada and Chile reached \$1 billion in 2000. Canada's exports of goods totalled \$445 million and imports reached \$555 million in 2000. Canada foreign direct investment in Chile was \$4.6 billion in 1999. In the past two years, over 70 percent of Canadian investment has been in the mining sector, resulting in spin-offs for Canadian companies in other manufacturing and services sectors. Significant Canadian investments were also directed to the energy and information technology sectors. While it is too early to assess the impact of the Canada-Chile Free Trade Agreement on the bilateral trade and on investment, clearly the short term trends have been very encouraging.

The entry into force on January 1, 2000 of the Convention on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (DTA), the first of Chile's new generation of tax treaties, meets one of the key commitments contained in the Canada-Chile Free Trade Agreement. This convention facilitates the growth in trade and investment between Canada and Chile by establishing a more stable taxation framework for individuals and companies who do business in each other's countries.

In 1998, the Chilean government announced that it will reduce its uniform most-favoured-nation tariff by 1 percentage point per year until the tariff reaches

6 percent in January 2003. Under this schedule, the non-preferential most-favoured-nation rate for all goods entering Chile was 9 percent in 2000. In two cases, bread mixes and cereal preparations, these most-favoured-nation reductions will trigger guaranteed minimum margins of preference for Canadian goods in the years 2001, 2002 and 2003. In these two cases, Canada will seek to ensure that Chile honours its CCFTA obligations by adjusting downwards the preferential rate for Canada.

Market Access Results in 2000

- On January 1, 2000, the Convention on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (DTA) came into effect.
- On May 11, 2000, the Chilean Central Bank, with the approval of the Minister of Finance, announced the removal of the one year minimum holding requirement for foreign capital, a measure that Canadian investors had long lobbied for removal of.
- In July 2000, Chile rescinded the tax on Canadian gold coins.
- In January 2001, the Chilean government granted Canada with an exclusion on a provisional safeguard measure imposed in 1999 on wheat and wheat flour, edible vegetable oils and sugar as well as on powder and UHT fluid milk.
- On January 23, 2001, the Chilean congress passed new legislation in response to a WTO panel on discriminatory liquor taxes which will result in a final rate of 27 percent applicable to all spirits as of March 2003.

Canada's Market Access Priorities for 2001

- encourage Canadian and Chilean professional services providers, particularly engineers, to continue work on developing mutually acceptable standards and criteria for licensing and certification of professionals;
- continue to make representations to Chile to remove its ban on Canadian fish eggs;
- explore the possibility of a further round of accelerated tariff reduction;
- ensure that Chile's implementation of the WTO panel ruling regarding liquor taxes complies with Chile's WTO obligations; and

- complete the roster of panellists for CCFTA dispute settlement purposes.

Safeguards

In 1999, Chile imposed a safeguard measure on products subject to its price band system, i.e. wheat and wheat flour, edible vegetable oils and sugar. Canada asserted that imports from Canada should have been exempt under the provisions of the Canada-Chile Free Trade Agreement (CCFTA).

The Chilean government extended the safeguard on the price band products for another year. Although Canada was given an exemption on edible vegetable oils and sugar, Chile did not offer an extension to Canada on wheat. Canada still maintain the view that imports of wheat from Canada should have been exempted from the measure and therefore has formally requested compensation from Chile as provided for under the Canada-Chile Free Trade Agreement.

In July 2000, Chile also imposed a provisional safeguard measure on powder and UHT fluid milk. Again, Canada asserted that imports from Canada should have been exempt under the provisions of the Canada-Chile Free Trade Agreement. Argentina, also subject to the provisional safeguard, requested consultations with Chile to discuss the WTO consistency of this measure. Consultations were held in November under the WTO Safeguards Agreement. Canada, along with other affected countries participated in these consultations. Canada was eventually granted an exclusion from the definitive measure in January 2001.

Taxes on Alcoholic Beverages

Canada, United States and Peru participated as third parties in a WTO case brought by the European Union contending that Chile maintains a tax regime that discriminates against imported alcoholic beverages. In June 1999, a WTO panel ruled that the different taxation system on imports afforded protection to Chile's domestic production and constituted a violation of Chile's WTO obligations. The panel's findings were upheld by the Appellate Body on December 13, 1999. A WTO arbitrator ruled that Chile had 14 months (i.e. until March 21, 2001) to bring its taxation regime into conformity with the World Trade Organization. On

January 23, 2001 the Chilean congress adopted new legislation providing for a final rate of 27 percent applicable to all spirits as of March 2003. In the meantime, the tax rate for whisky and other imported spirits (currently 47 percent) will be progressively reduced to that level. While the World Trade Organization had given Chile until March 21, 2001 to implement a non-discriminatory tax regime, the European Union has agreed to grant an extension in an effort to accommodate Chile's adjustment concerns.

Gold Coins

In 1999, the Chilean Internal Taxation Service (SII) ruled that a 50 percent luxury tax and 18 percent value-added tax (VAT) should be applied retroactively to imported gold coins produced by the Royal Canadian Mint, while similar gold coins produced by the Chilean Mint were not taxed. Canada made representations to the Chilean government seeking an end to the discrimination. In response to representations from the Government of Canada, Chilean authorities rescinded the discriminatory tax on Canadian gold coins in July 2000.

Salmon and Trout Eggs

In July 2000, Chile amended its regulations so as to subject all imported fish eggs to a case-by-case scrutiny and quarantine, effectively preventing access to their market. Canada's position is that there is no scientific justification for the restriction, and is making representations to Chilean authorities requesting its removal.

CARIBBEAN AND CENTRAL AMERICA

Overview

With few barriers to trade, English as a common language, legal codes and business practices similar to Canada's and Canadian banks well-established in the region, the Caribbean Community (CARICOM) is a welcoming market for Canadians and can be a good starting point for new exporters. The 15 members of CARICOM are: Antigua and Barbuda; Bahamas; Barbados; Belize; Dominica; Grenada; Guyana; Haiti (all but ratification); Jamaica; St. Kitts and Nevis; St. Lucia; St. Vincent

and the Grenadines; Suriname; Trinidad and Tobago; and Montserrat (U.K. dependency). The Bahamas is a member of CARICOM but not of the Caribbean Common Market.

Annual two-way merchandise trade between Canada and CARICOM countries amounted to \$937 million in 2000 with Canadian exports totalling \$354 million and imports \$583 million. Potential for services exports also continues to grow as over \$200 million in Canadian consulting, engineering and contracting sales are awarded annually.

Totalling at least \$25 billion, Canadian investment in CARICOM countries as a group exceeds our investment in all other countries except the United States and the United Kingdom. The leading area for investment is financial services (e.g. banking, insurance), particularly in Barbados and the Bahamas. Canadian investment diversified in the 1990s to include Trinidad and Tobago's energy sector and Guyana and Suriname's mining sectors.

The Dominican Republic

With gross domestic product growth reaching 8 percent in 2000 and worldwide imports of goods and services totalling US\$9.6 billion in 1999, the Dominican Republic offers one of the Caribbean's largest and fastest growing markets and duty-free manufacturing zones. However, two way trade between Canada and the Dominican Republic remains modest at \$177.1 million in 2000, with Canadian exports of \$81.6 million and imports of \$95.6 million. Canadian investment in the Dominican Republic is substantial, mainly in telecommunications, mining, banking and tourism. Canadian wood products are subject to unnecessary trade restrictive phytosanitary measures in the Dominican Republic. Discussions have been initiated with the Dominican Republic phytosanitary authorities with a view to addressing Canadian concerns.

Cuba

Cuba is Canada's largest market in the Caribbean, and Canada is Cuba's biggest foreign investor worldwide. Canadian exports to Cuba totalled \$328 million in 2000. In spite of Canadian successes in Cuba, however, business dealings in a centrally controlled economy can be difficult, especially for the inexperienced exporter.

CENTRAL AMERICA

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama are emerging economies with generally good economic growth. Canadian exports to the region reached \$316 million in 2000 and continue to increase. However, import barriers exist in traditional sectors, particularly agricultural products such as milk and pork in Panama, pork in Guatemala and frozen food (french fries) in Costa Rica. In the mining sector, notably in Costa Rica, Canadian firms have experienced difficulty in obtaining operating permits.

In order to facilitate access to the Central American markets, Canada entered into free trade negotiations first with Costa Rica in early 2000, and later in the year with El Salvador, Guatemala, Honduras and Nicaragua. The conclusion of free trade agreements with these countries will signal Canada's continued commitment to the hemisphere and help realize the potential for further developing the trade relationship between our countries, particularly in respect of our small and medium-sized businesses. More details on these negotiations and the relevant markets are set out below.

FREE TRADE AGREEMENTS (FTAs)

Canada's goal of furthering global trade and investment liberalisation is significantly advanced by the establishment of bilateral and regional free trade agreements (FTAs). Aside from opening international markets for Canadian exporters and increasing domestic economic growth, FTAs complement and assist in accelerating the broader process of promoting prosperity and sustainable development worldwide and competitiveness. Canada is currently negotiating FTAs with Costa Rica and the Central American four (El Salvador, Guatemala, Honduras and Nicaragua), and has launched discussions with the Caribbean Community and Common Market (CARICOM) towards the negotiation of a free trade agreement. These bilateral FTAs will remove unnecessary barriers to trade while respecting the ability of all parties to regulate in the public interest. This will open markets for Canadian exporters, while at the same time, moving forward negotiations of the Free Trade Area of the Americas (FTAA), itself an important component of the Summit of the Americas process.

Costa Rica

After several months of extensive consultations with Canadians, the Minister for International Trade announced on June 30, 2000 the launch of free trade negotiations with Costa Rica. The negotiations are well underway and could conclude as early as spring 2001. In 2000, Canadian exports to Costa Rica totalled \$86 million and imports were \$183 million. In the negotiations, Canada is seeking to secure preferential access for Canadian businesses to the Costa Rican market and the elimination of tariffs on key Canadian exports, such as paper products, auto parts, plastics, wood and agricultural products. Canada is also striving to establish a comprehensive framework on competition policy that could serve as a model for the region. Trade facilitation is another area where Canada is seeking to reach an agreement. Specifically, negotiators are working to develop a regulatory framework with specific provisions on trade facilitation as a means of eliminating trade barriers and promoting a freer and smoother exchange of goods, services, investments and business people between our countries. Side agreements to address labour and environmental issues are also being pursued.

El Salvador, Guatemala, Honduras and Nicaragua

In September 2000, at the Canada-Central America Summit, Canada agreed to move ahead bilaterally toward free trade with El Salvador, Guatemala, Honduras and Nicaragua. An initial meeting was held with Central American negotiators in early December. Domestic consultations were subsequently initiated with business, citizen-based organizations and individual Canadians, as well as with the provincial and territorial governments, to gauge their opinions and obtain advice and views on priorities, objectives and concerns to help define the scope of this initiative.

Although the region has previously constituted a relatively small market for Canadian goods, Canada's efforts to expand its role in Central America have been paying dividends. In 1995, Canada exported \$94 million worth of goods to these four Central American countries, while imports were valued at \$197.3 million. In 2000, Canada's exports to Central America increased to \$173.7 million and imports were worth just

over \$443 million. Main Canadian exports include wheat, telecommunications equipment, newsprint and other paper products, potash, processed foods, fruits and vegetables and plastics. Canadian imports include fruits and vegetables, clothing, sugar, electronic components, tobacco and coffee.

CARICOM

At the Canada-CARICOM Summit in Jamaica on January 19, 2001, Prime Minister Chrétien and the Heads of Government of the Caribbean Community and Common Market (CARICOM) countries agreed to initiate discussions toward bilateral free trade. Canadian and CARICOM representatives held a preliminary meeting in March 2001 in order to develop a framework agreement that will constitute the basis for free trade negotiations. Concurrently, domestic consultations will be launched in order to obtain advice and views on priorities, objectives and concerns with respect to this initiative. Two-way trade between Canada and CARICOM is significant, amounting to \$938 million in 2000. In 1999, Canadian investments in the region total close to \$25 billion. Moreover, some \$200 million in consulting and engineering contracts in the Caribbean are won by Canadian firms annually. Leading Canadian exports to the region include fisheries and agri-food products, telecommunications equipment, computers, paper including newsprint, furniture and pharmaceuticals, while our imports are led by gold, alumina/bauxite, fisheries and agri-food products, mineral fuels, petroleum oils, steel rods and industrial chemicals.

Market Access Results in 2000

- Reached an agreement with Costa Rica on the sanitary requirements for Canadian meat.

Canada's Market Access Priorities for 2001

- conclude free trade agreements with Costa Rica;
- advance FTA negotiations with El Salvador, Guatemala, Honduras and Nicaragua;
- advance discussions with CARICOM on a framework for FTA negotiations;
- pursue discussions with Dominican Republic on barriers to the import of Canadian wood products;
- work with Guatemalan counterparts to reach agreement on the sanitary requirements for Canadian meat imports; and
- continue to press Panama for the removal of restrictive import permit requirements, sanitary and phytosanitary measures, and other trade barriers adversely affecting Canadian exports of agri-food products.

EUROPEAN UNION

Overview

The European Union is the world's largest single market, having surpassed the United States in both gross domestic product (GDP) and population. As a group, the fifteen EU Member States continue to rank as Canada's second-most important trading and investment partner after the United States. Two-way trade in goods amounted to \$55 billion in 2000. Canada's merchandise exports to the European Union amounted to \$21 billion, while imports totalled \$34 billion. The European Union is also the second-largest source and destination of foreign direct investment for Canada. In 1999, cumulative foreign direct investment from the European Union amounted to \$45.2 billion, while Canadian direct investment in the European Union grew to \$48.9 billion.

Several major trade and economic developments in the European Union have implications for Canada, including economic and monetary union (EMU), market distortions in the agriculture sector arising from domestic support, protective tariffs in certain sectors, the further development of the single market, negotiations on enlargement and new regional trade agreements, and the imposition of EU import bans/restrictions based on its interpretation of the precautionary approach. The European Union will continue to grapple with the question of institutional reforms, which the accession of new members makes necessary if the European Union is to function effectively in future.

The euro is now the official currency of 12 of the 15 EU Member States. On January 1, 2001, Greece became the 12th country to adopt the euro leaving only Denmark, Sweden and the United Kingdom as non-members. Euro notes and coins will begin circulating in 2002. Together with the private sector, the federal government is helping to ensure that Canadian business is prepared for the changes that the euro may bring to trade and investment.

Regarding enlargement of the European Union, negotiations are underway with Poland, Hungary, the Czech Republic, Slovenia, Estonia, Cyprus, Latvia, Lithuania, the Slovak Republic, Malta, Bulgaria and Romania. Turkey is also an official candidate for membership, although negotiations



5. Opening Doors to Europe

with it will begin only after the EU's political criteria have been met. While reluctant to establish a precise date, Member States agreed at the December 2000 Nice Summit that they hoped that those candidates deemed ready to join by the end of 2002 will be able to do so before the next European Parliamentary elections scheduled for 2004. The European Union is also negotiating regional free trade agreements with other parts of the world. In recent years, agreements have been reached with Mexico and South Africa and with developing countries who are members of the ACP bloc (Africa-Caribbean-Pacific). Economic ties with Switzerland have also been deepened through a series of bilateral agreements. In addition, the European Union is engaged in negotiations with the Mercosur countries and Chile. In consequence Canada is only one of eight economies which does not have some form of preferential trading relationship with the European Union.

Canada-EU trade relations are managed under the WTO agreements, as well as the bilateral 1976 Framework Agreement for Commercial and Economic Cooperation, which established a structure of consultative committees. The 1996 Joint Political Declaration on Canada-EU Relations and the *Canada-EU Action Plan* set goals for broadening Canada-EU relations not only in the trade and economic areas, but on a broad range of foreign and domestic policy issues as well.

The EU-Canada Trade Initiative (ECTI), launched in December 1998, established a sub-set of objectives for market access and economic co-operation drawn from the action plan which were considered achievable within a reasonable time frame. These objectives include: regulatory co-operation, services, government procurement, intellectual property, competition issues, cultural co-operation, business-to-business contacts, and electronic commerce. ECTI also calls for regular consultations between both parties on multilateral trade issues.

A report on progress made under ECTI is submitted to trade ministers at each twice-yearly Canada-EU Summit which also set priorities for the coming period. Under ECTI, both sides will be looking to continue co-operation toward a professional services mutual recognition agreement, setting out ways to increase cultural co-operation, continue dialogue on biotechnology and work toward revising. The review

of ECTI objectives reflects the fact that many of ECTI's initial goals have already been achieved.

The establishment of a dialogue between the respective business communities has been a key ECTI objective. A Canada-Europe Round Table (CERT) has been established, which brings together firms from a range of sectors who support the development of the Canada-EU economic relationship. CERT is currently in the process of expanding its membership base and setting itself on a sustainable financial footing.

The Minister for International Trade, the Honourable Pierre Pettigrew, and his counterpart, the EU's Commissioner for Trade, meet frequently to discuss bilateral and multilateral trade questions, most notably at the twice-yearly Canada-EU Summit meetings. The most recent meeting was held in Ottawa in December 2000, when prospects for a new multilateral trade round and progress under the EU-Canada Trade Initiative (ECTI) were key agenda items. Canada-EU trade questions are also dealt with by officials through the Joint Cooperation Committee (JCC) and the Trade and Investment Sub-Committee (TISC), as well as in other sectoral working groups.

Market Access Results in 2000

- In March 2000, the European Union enlarged its annual TRQ for cooked and peeled shrimp to 5,000 metric tonnes at a 6 percent tariff (compared with the standard 20 percent tariff rate), an increase of 1,000 MT from the 4,000 MT quota set for 1999.
- Discussions have been held throughout 2000 on a wide range of wines and spirits objectives. A key Canadian breakthrough has been to achieve access to the European Union for icewine.

Canada's Market Access Priorities for 2001

- seek the elimination of export subsidies and the reduction of production-distorting domestic support through the WTO agriculture negotiations;
- continue discussions toward agreements that will improve market access for Canadian wine and spirits;
- complete the implementation of the 1998 Canada-EU MRA by finalizing the confidence building phase;

- encourage professional associations in Canada and the European Union to work toward agreements concerning the mutual recognition of qualifications; and
- continue co-operation with the European Union in the field of e-commerce pursuant to the agreed work plan.

A number of barriers to trade exist in the European Union that are of concern to Canada, particularly in the agriculture and natural resource sectors. In the wake of past food-safety scandals in the European Union, Commission and Member State positions on consumer health and safety issues have grown more cautious, and factors other than scientific considerations appear to be growing in influence.

New multilateral trade negotiations will offer the best opportunity to improve Canada's market access on a wide range of industrial and agricultural goods. Bilateral liberalization efforts under ECTI will also make a contribution.

IMPROVING ACCESS FOR TRADE IN GOODS

Common Agricultural Policy and Subsidies on Agricultural Products

In March 1999, the EU heads of state approved Agenda 2000 EU Common Agriculture Policy (CAP) reform. The approved policy was disappointing in that it resulted in only modest reductions to agriculture price supports and allowed direct production-linked subsidies to remain. As a result, the Common Agricultural Policy will continue to restrict access to the EU market for most Canadian agricultural products and distort third country markets. Canada will pursue the reduction of market-distorting domestic support and the elimination of all export subsidies through multilateral negotiations on agriculture, which commenced in 2000.

Wine and Spirits

Canada and the European Union have been engaged in renewed efforts to reach agreements on wine and spirits over the past year. High level discussions took place in late 2000/early 2001, including at the December 2000 Canada-EU Summit in Ottawa, with a view to gaining early access for Canadian icewine. On February 27, 2001, a significant hurdle was

cleared when the EU wine management committee (comprising all Member States) did not oppose the legislative changes necessary to allow the import of Canadian icewine. The European Commission is expected to adopt these legislative changes soon. Other issues being discussed include oenological practices and the protection of names. The European Union has also raised concerns related to certain provincial liquor board policies. Objectives on the spirits side include the recognition and protection by the European Union of the term "Canadian whisky".

Fish

Canadian exporters of fish, shrimp 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 12 percent to 23 percent. Coldwater shrimp exports are faced with tariff rates of up to 20 percent, depending on the product form. Primarily because of these barriers, Canadian fish and seafood exports to the European Union have declined since the beginning of the decade, stabilizing around the \$300 million level. It will continue to be a priority for the Canadian government to seek improved access to the European Union for Canadian fisheries exports.

In April 1999, the European Union opened a 4,000-tonne autonomous TRQ for cooked and peeled shrimp, under which the product was subject to a reduced duty of 6 percent if imported for further processing in the European Union. EU Member State fisheries ministers decided in December 1999 to extend the TRQ for a further three years and to increase the quantity to 5,000 tonnes annually. Canada will continue to actively pursue renewal and improvement of the TRQ as an interim measure until we have an opportunity to try to obtain unrestricted duty-free access for this product via WTO negotiations.

Aluminum

Reduced tariffs on aluminum ingot and other non-ferrous metals remain a priority for Canada. With regard to aluminum, for example, the government will continue to support the Canadian industry's efforts to encourage like-minded producers and users of ingot in the European Union to urge the European Commission to suspend the 6-percent tariff.

Genetically Modified Canola

The European Union has yet to approve all of Canada's genetically modified (GM) canolas currently in production, and thus Canada is unable to export canola to the European Union. Canadian canola exports to the European Union peaked in 1994 at \$425 million. Canada's position is that there are no health, food safety or environmental reasons why GM canolas under commercial cultivation in Canada should not be approved for the EU market.

The EU Commission has taken a scientific approach on a case-by-case basis regarding GMO approvals. The Commission has released two favourable scientific reports which state that two GM canola varieties already under cultivation in Canada do not pose a health nor environmental risk. Member States have acted together to form blocking minorities which prevented the passage of approvals.

The European Union approval process for GMOs has been stalled in this way since March 1998. In an effort to unblock the approval process and gain public confidence in GMOs, the EU Commission proposed revised EU legislation for GMO approvals (EU 90/220) in July 2000. This directive sets out a step-by-step process that the EU biotechnology industry must follow to ensure that each new GM product does not pose a risk to the environment, which is more onerous than the previous directive.

On February 14, 2001 the European Parliament formally approved this revised directive for which Member States now have 18 months to pass into national law. Thus, at a minimum, the EU GMO approval regime will remain blocked until the fall of 2002.

Canada's largest export markets for canola (Japan, the United States and Mexico) have accepted the varieties under commercial cultivation in Canada. In 1999, some 60 percent of Canadian canola acreage was grown with canolas with novel traits. Canada continues to express its concerns to the European Union at the highest levels regarding this market access barrier for genetically-modified canola varieties currently cultivated in Canada.

Chrysotile Asbestos

In the European Union, eleven Member States (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Sweden

and the United Kingdom) have severely restricted or banned the use of chrysotile asbestos. In the summer of 1999, the European Commission adopted an amendment to its directive on asbestos calling for a total ban among its Member States by January 2005. Canada's exports to the European Union of asbestos and asbestos products amounted to some \$44 million in 1995.

The Canadian government, in partnership with the Government of Quebec, the asbestos industry, labour unions and the affected communities, seeks to maintain market access for chrysotile asbestos products to the European Union.

Canada considers that the bans imposed by many EU Member States and the Commission cannot be justified by scientific risk assessments and are not proportional to the potential risks presented by chrysotile asbestos in specified applications. In Canada's view, the scientific evidence favours a controlled-use approach to chrysotile asbestos. In consequence, the federal government has pursued every opportunity to persuade the European Union and individual Member States to maintain controlled-use policies instead of imposing bans.

At Canada's request, a WTO dispute settlement panel was established to resolve the dispute on the ban of chrysotile asbestos by France. In its final report of September 18, 2000, the Panel concluded that the decree banning asbestos in France was in conformity with the WTO agreements. On October 23, 2000, Canada appealed certain aspects of the Panel ruling. In its report issued on March 12, 2001, the Appellate Body upheld the main conclusion of the Panel on the conformity of the French decree with the WTO agreements.

Bans and Restrictions on Certain Non-Ferrous Metals

The European Commission has proposed a number of directives (on batteries and accumulators; waste management of electrical and electronic equipment; and end-of-life vehicles) that provide for restrictions and an eventual ban on the use of certain substances, including lead, mercury and cadmium, of which Canada is an exporter. These substance bans, if implemented in their proposed form, would have adverse trade implications for Canada with respect to both the non-ferrous metals in question and the manufactured products making use of them. While

Canada shares the Commission's commitment to the protection of health and the environment, it continues to question whether such product bans are proportionate to any attendant risks and is concerned that such measures may be more trade restrictive than necessary to achieve their intended objectives.

Canada is of the opinion that the phase-out and ban of these materials in electrical and electronic equipment may result in negative environmental impacts by forcing adoption of substitutes that could have a more detrimental environmental impact than the substances they replace. Moreover, the phase-out and ban measures will have significant adverse trade implications affecting the design, manufacture, production and distribution of all electrical and electronic equipment around the world. Inasmuch as the draft directives mandate the selective treatment of individually identified materials and components, this represents an infringement into the manufacturing/production cycle of resource recovery and, as such, is an overly and unnecessarily prescriptive approach.

The draft directives refer to a "producers' responsibility network", but it is not clear who will be responsible for the creation of the end-of-life collection, the take-back and dismantling schemes, or the recycling, reuse and recovery programs that the draft directives set out. Canada is concerned by its potential to create a closed market for raw material resources whose access is limited to those treatment facilities operating strictly within a closed "producers' network". The draft directives also appear to contain export restrictions which may be inconsistent with international trade rules.

Canada has repeatedly requested information from the European Commission about the scientific foundations that may justify the prohibitions contained in the draft directives. However, no information to date has been offered. In the absence of comprehensive and scientifically sound risk assessments, Canada considers that the Commission is acting prematurely. Some of the draft directives are now before committees of the European Parliament. As discussions are still taking place within the European Union on the substance and the implementation of these draft directives, Canada will continue to monitor them and convey its concerns to the Commission, the Parliament and the Member States at the various stages of the EU decision making process.

Eco-Labeling

The European Commission has an eco-labelling scheme called the "Flower Program". Items covered include a number of paper products (e.g. sanitary papers). The criteria used for the program largely reflect European domestic environmental requirements, values and European-based performance measures. Canada has been excluded from the process of setting criteria and is concerned that the Flower Program has not been developed in a transparent manner and discriminates in favour of EU producers.

Canada will closely follow EU developments in this field to ensure that the European Union adheres to the WTO Technical Barriers to Trade Agreement's Code of Good Practice in its eco-labelling programs, particularly provisions dealing with transparency and ensuring fair access of foreign producers to eco-labelling programs.

Forest Certification

There is an ongoing marketplace demand in Europe, especially within the United Kingdom, Germany and the Netherlands for forest products to carry some kind of assurance by virtue of being certified that the product has been manufactured using wood that comes from sustainably managed forests. While the demand for such evidence represents a level of scrutiny not applied to other raw materials used in competitive products, the Canadian industry is endeavouring to address this demand, in most instances using one or more of the four certification schemes currently available or under development in Canada.

Forest certification represents a major challenge given the magnitude, diversity and complexity of the Canadian forest and the need to ensure that forests are evaluated using criteria and indicators relevant to the forest area in question. It is worthy of note that some 90 percent of the Canadian forest is publicly owned and the industry currently operates within a highly regulated forest management environment that is based on sustainable development criteria and subject to ongoing improvement.

The Canadian concern, however, is that certification itself not be used as a market access barrier thereby placing Canadian product at a disadvantage in export markets. Barriers in the form of raw material

specifications based on local conditions or inappropriate criteria is an outstanding issue. So too are barriers in the form of procurement policies adopted by buying groups or public bodies which specify that all product must carry the label of one specific certification scheme to the exclusion of other equivalent approaches. Canada would be concerned about any measures requiring mandatory labelling for forest products based on non-product-related process and production methods.

Canada will continue to monitor our access to key markets with a view to ensuring that certification remains a voluntary marketplace activity and that criteria consistent with Canadian forest values are used to evaluate Canadian products.

Certification of Organic Food Products

EU regulations allow for imports of organic products from EU-listed third countries authorised to export to the European Union and from non-listed third countries. Canada is currently not on the EU list, hence exports of Canadian organic products to the European Union need to be certified and Canadian exporters must work through individual Member States to obtain clearances to import certified organic products on a case-by-case basis. EU organic legislation requires that organic product certifiers meet criteria as certification bodies defined by EN45011/ISO 65. EU Member States are implementing this requirement. The case-by-case approval has from time to time created market access difficulties for Canadian organic exports.

Canadian exporters will have to continue to meet Member State requirements for organic imports until Canada appears on the EU list of third countries authorised to export to the European Union. To meet EU requirements for a listed country, Canada has to demonstrate that the recently developed "Canadian Standard for Organic Agriculture" [ratified in 1999 by the Standards Council of Canada (SCC)] meets EU or equivalent organic production standards; and that Canada has an accredited certification body for organic agriculture. Canada should be able to meet the first EU requirement as the Canadian Standard for Organic Agriculture is consistent with international standards (ISO 65 standard and Codex alimentarius).

The second requirement is not yet met as the Canadian Organic Advisory Board (COAB), a non-profit advisory body representing the interests of organic production and certification groups in Canada, only recently submitted an application for accreditation to become the first Standards Council of Canada accredited certification body for Canadian organic products. The accreditation process is expected to be a time-consuming taking up to 2-5 years for completion.

IMPROVING ACCESS FOR TRADE IN SERVICES

Professional Services

Discussions between the European Union and Canada were initiated in 2000 to explore the interest of our respective professional services providers to develop mutual recognition agreements (MRAs). Following domestic consultations on both sides, interest has been expressed by the architecture and engineering professions to explore the feasibility to initiate discussions towards the development of an agreement. These professions have significant export interest and experience in each others markets and are signatories to existing MRAs. For example, Canadian engineers have concluded recognition agreements with their French and U.K. counterparts.

Discussions between the professional bodies are at an early stage. Both sides have agreed to exchange information regarding their respective regulatory regimes on matters such as accreditation, licensing and qualification requirements and procedures. This is a necessary first step to fully understand the commonalities and differences of their regimes. It is expected that the discussions will be on-going through 2001.

The Canadian government has long encouraged national and provincial professional bodies to engage in the development of mutual recognition agreements with their respective foreign counterparts as a means to facilitate and enhance their ability to export their services in foreign markets. Because these agreements are between respective professional associations, and hence are not inter-governmental in nature, the government's role is to facilitate and encourage the development of MRAs.

SANITARY AND PHYTOSANITARY IMPORT REGULATIONS

Pinewood Nematode

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

Over the years, Canada has proposed alternative measures to control pinewood nematode, while allowing trade in untreated lumber. However, the European Union has not accepted Canadian proposals for less trade-restrictive measures. At Canada's request, WTO consultations were held on July 15, 1998, but the issue remains unresolved. Government officials will work with industry and provincial representatives to assess next steps.

Beef Hormones

In 1989, the European Union 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 and by Canada's own scientific reviews.

After Canada and the United States referred the matter to the World Trade Organization, a panel concluded in August 1997 that the EU ban violated the SPS Agreement since it could not be justified by scientific evidence. The panel's conclusion was further confirmed by the WTO Appellate Body in January 1998. The European Union was given until May 1999 to implement the WTO rulings, but it failed to do so.

In August 1999, because the European Union did not implement the WTO rulings, and given the absence of an acceptable offer of compensation as an interim solution, Canada imposed retaliatory tariffs on a list of imports from the European Union, including beef, cucumbers, gherkins and pork. These measures will remain in effect until such time as the EU implements the WTO rulings or offers a satisfactory compensation package on an interim basis pending implementation of the WTO rulings.

As of March 2001, the European Union has still not implemented the WTO rulings and Canada's retaliation remains in effect. Canada's objective remains open access to the EU market for Canadian beef. For more information, www.dfait-maeci.gc.ca/tna-nac/dispute-e.asp#Hormones

Canada-EU Veterinary Agreement

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

A second meeting of the JMC was held in Halifax in October 2000. There was agreement to continue joint work by developing a list of commodities which reflect shared priorities and for which an agreed approach to equivalency can be undertaken. Agreement was also reached on ways to move ahead to improve the exchange of information and notifications. As future work, it was agreed, as a matter of priority, to establish three technical working groups to focus on audit/verification, information exchange/notification and equivalency.

Seed Potatoes

A derogation from EU phytosanitary requirements is required for continued access to the European Union for Canadian seed potatoes. The particular pests of concern are bacterial ring rot (BRR) and potato spindle tuber viroid (PSTV).

Traditionally, an annual derogation had been granted based on requirements that Canada conduct stringent laboratory testing and certification of disease-free zones in Prince Edward Island and New Brunswick for all exports to the European Union.

In September 1999, the EU Standing Plant Health Committee approved a three-year derogation for Canadian seed potatoes. The European Union published its Decision in November 1999 which authorises four Member States (Italy, Portugal, Greece, Spain) to import seed potatoes originating from Canada for the next three-year seed-potato marketing season or shipping periods (January 15, 2000 to March 31, 2000; December 1, 2000 to March 31, 2001; and again December 1, 2001 to March 31, 2002). Historically, Italy and Portugal are the only Member States who take advantage of the derogation. For the January-March 2000 shipping period, Portugal was the only Member State to use the derogation and imported 282 tonnes from Prince Edward Island. Italy missed the shipping season for the January-March 2000 shipping period as it was late in implementing the Commission Decision in time.

OTHER ISSUES

Government Procurement

Canadian suppliers still do not have access to EU markets in a number of sectors, including telecommunications equipment and services, transportation equipment and electric utilities. Particular barriers that serve to restrict access include standards, certification, qualification and local-content requirements. Canada is addressing these issues with the European Union in the WTO Government Procurement Working Group to further reduce or eliminate tariff and non-tariff barriers.

Telecommunications

Canadian companies have benefited from the ongoing liberalisation of EU telecommunications regulatory frameworks. We are following with interest the process of unbundling local loops in the European Union, including costs, transparency and timeliness. Some problems have, however, been identified. In Germany, high up-front licensing costs, under review by German courts, are a concern for Canadian companies, and efforts by Deutsche Telekom to have the Berlin market receive special consideration for the setting of interconnection rates would, if successful, create an unwelcome precedent.

EUROPEAN FREE TRADE ASSOCIATION (EFTA)

The government announced the launch of free trade negotiations with the EFTA countries on October 9, 1998. The European Free Trade Association (EFTA) comprises Iceland, Norway, Switzerland and Liechtenstein. In 2000, Canada exported \$1.3 billion worth of goods and imported goods valued at \$5.9 billion from the region. Foreign direct investment from EFTA members into Canada in 1999 stood at \$4.6 billion and was concentrated in natural resource-based industries.

The free trade agreement is expected to focus primarily on industrial tariff elimination, with some liberalization for agriculture and new co-operation in trade facilitation and competition policy. It will not include new commitments in the areas of services, investment or intellectual property.

Agreement has been reached on most issues. The issue of the treatment of ships and offshore vessels and platforms used in oil and gas production has not been yet resolved.

Mutual Recognition Agreement (MRA)

A mutual recognition agreement facilitates trade in regulated products by allowing manufacturers in the exporting Party to complete in their home territory the testing, inspection and certification requirements. Canada signed in July 2000, three bilateral agreements (in one document) between Iceland, Liechtenstein and Norway on Mutual Recognition of Conformity Assessment of certain regulated products. The sectors covered are telecommunications and information technology equipment; electrical safety; electro-magnetic interference; medical devices and Good Manufacturing Practices for pharmaceuticals and recreational craft. It is anticipated that the confidence building periods provided for under the MRAs will commence in early 2001. These MRAs complement the Canada-EC MRA and the Canada-Switzerland mutual recognition agreement.

RUSSIAN FEDERATION

Overview

The financial crisis in 1998 resulted in a drastic decline in Canada's goods exports to the Russian Federation from \$379 million in 1997 to \$199 million in 2000. Imports of goods from Russia to Canada totalled \$666 million in 2000, a slight increase from \$607 million in 1999. Many Canadian exporters have scaled back their activities in Russia, adopting a "wait and see" attitude, but with signs of an economic upturn there is evidence of renewed interest in this market. In 1999, the value of Canadian direct investment in Russia was estimated at some \$1.25 billion, principally in the mining and oil and gas sectors, and to a lesser extent, in food services and high technology.

Under the new Administration, the Russian economy is showing signs of continued recovery, although the pace of structural reform remains relatively slow. Russia will continue to be a key strategic market for Canadian resource extraction, agri-food and the housing/construction materials sectors. The Canadian government is working to improve access to this important emerging market along three main tracks: through the bilateral Intergovernmental Economic Commission (IEC); accession negotiations on Russia's entry into the World Trade Organization; and negotiation of a new Foreign Investment Protection Agreement.

Bilateral Trade

The Canada-Russia Intergovernmental Economic Commission (IEC) was established in 1995 with a mandate to identify and resolve trade and investment irritants and obstacles that Canadian and Russian companies face in each other's markets. It met most recently in Moscow in June 2000, and the Canadian delegation was led by the Minister for International Trade, the Honourable Pierre Pettigrew. Sectoral working groups (focussing on oil and gas, agriculture, housing and construction, mining and the Arctic and the North) work to enhance opportunities and market access for Canadian traders and investors. Also under consideration are proposals to organize ad hoc IEC events for the forestry, aerospace and telecommunications sectors, and to promote closer economic relations between western Canada and the Russian Far East.

Canadian exporters face a multitude of product testing and certification standards before their products can enter the Russian Federation. Different products frequently require multiple certificates of conformity (e.g. fire, health, occupational safety), each issued by different, and sometimes competing, Russian regulatory authorities. Published information on these regulatory requirements is often difficult to obtain. Inconsistent application of customs procedures and lack of transparency on changes in duties, rules, export tariffs and licences also pose difficulties for Canadian exporters and investors.

Through the Intergovernmental Economic Commission and other bilateral initiatives, including technical co-operation, Canada is promoting reforms to the Russian tax code; dispute settlement and contract enforcement procedures; and policy frameworks for resource development. We have also pressed for the removal of numerous administrative barriers to trade and investment and for uniformity in the application and enforcement of laws and regulations.

WTO Accession

The Russian Federation applied to join the World Trade Organization 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. In a joint statement issued by Prime Minister Chrétien and President Putin in December 2000, Canada and the Russian Federation reaffirmed their commitment to interact actively on the issues related to Russia's accession to the World Trade Organization.

Canada has underlined its support for Russia's eventual membership in the World Trade Organization on commercially viable terms generally applicable to newly acceding Members. Russia's membership in the World Trade Organization will give Canadian traders and investors enhanced and more predictable access to this important market. It will also help to consolidate the economic transition process in the Russian Federation and will strengthen the multilateral trading system. Although much has been achieved in recent years, Russia has a great deal of work to do to bring its trade and economic system up to WTO standards. Canada will continue to press for increased transparency as well as for more open, secure and non-discriminatory market access for Canadian providers of goods and services.

The Russian Federation presented its initial tariff offer in February 1998. In June 1998, Canada initiated bilateral discussions in Moscow leading to two revised offers from Russia in 2000. Further progress was made, primarily on industrial tariffs, during two recent bilateral discussions held in October and December 2000. A revised tariff offer was provided in February 2001. Bilateral discussions are continuing on an accelerated basis. Canada is seeking tariff concessions on products of current and future export interest to Canadian suppliers such as oil and gas equipment, agricultural and agri-food products, fish and fish products, vehicles, aircraft and telecommunications equipment. Canada will, among other things, look to Russia to bind all of its tariffs at or below currently applied rates, to join various zero-for-zero initiatives agreed in the World Trade Organization and to provide non-discriminatory access, for example, in the oilseeds sector.

The Russian Federation presented an initial services offer in October, 1999. In May 2000, Canada initiated bilateral discussions on services in Geneva. A subsequent meeting was held in December 2000, and Russia submitted a revised services offer in February 2001. Canada is seeking from Russia binding commitments relating to 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 is also looking for the removal of restrictions and discriminatory measures for the cross-border, consumption-abroad and commercial-presence modes in these sectors.

INVESTMENT

The protection of Canadian investment in Russia remains a priority for Canada. Canada has a significant interest in Russia, particularly in the mining and oil and gas sectors. Natural resource development and other forms of infrastructure, services and industrial development are key areas of potential interest for Canadian investors.

While the encouragement of foreign investment is a stated priority of the Russian government, there have been difficulties creating a stable, attractive investment climate. Current concerns for investors in the Russian Federation include: poor corporate governance; taxation levels; the complexity and uncertainty concerning domestic legislation; and a lack of effective recourse through the judicial system in order to resolve investment disputes.

The existing Foreign Investment Protection Agreement (FIPA) signed between Canada and the USSR in 1989 provides limited protection for Canadian investors compared to more recent NAFTA-style investment agreements. Negotiations were initiated in January 1998 and are continuing with the aim of developing a new and enhanced FIPA to improve conditions for increased Canadian investment.

UKRAINE

Overview

Canada-Ukraine bilateral trade was below potential at only \$148 million in 2000, with Ukraine running a surplus of \$98 million. In 1999, Canadian investment in Ukraine was approximately \$150 million concentrated in the following sectors: energy, construction and agri-food. There are roughly forty Canadian firms actively pursuing business opportunities in Ukraine half of which maintain a presence in the country.

The Canadian government is working to improve access to the Ukrainian market and expand bilateral trade and investment through WTO accession negotiations with Ukraine and the bilateral Intergovernmental Economic Commission.

WTO Accession

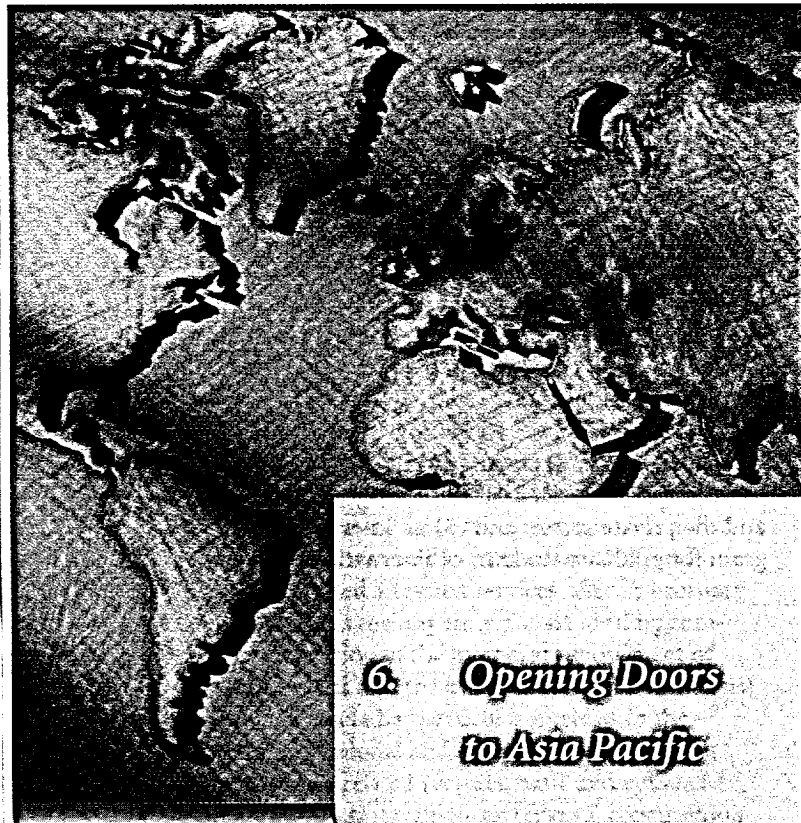
Ukraine applied to join the WTO in 1993. Since then, Canada has focussed on the need for more open, secure, and non-discriminatory market access for Canadian exports of goods and services. In 2000, Canada's Ambassador to the World Trade Organization, the Honourable Sergio Marchi, was chosen by WTO Members as the Chair of the Ukraine Working Party (WP).

At the last Working Party meeting on July 12, 2000 substantial progress was made in several areas, and in November 2000, Ukraine provided legislative action plans, replies to questions, and updated information on several sectors and a range of trade policies. While the July 12 meeting marked an important step in advancing Ukraine's accession to the World Trade Organization, significant work remains to complete the process, particularly in areas such as technical barriers to trade, sanitary and phytosanitary issues, intellectual property rights, and customs procedures.

In 1997, as part of the accession process, Canada initiated bilateral market access negotiations with Ukraine on goods and services. After a slow start to the negotiations, solid progress was made during the bilateral negotiations in July and December 2000 in areas such as agriculture, fish and fish products, industrial products, and services. Canada is continuing these bilateral negotiations in 2001. Canada is seeking lower tariff levels and the removal of non-tariff barriers on several products of direct export

interest to Canadian firms. Canada is also seeking commitments from Ukraine in key services areas, including telecommunications and financial services. Given Ukraine's renewed vigour in 2000 to accede to the World Trade Organization, Canada is optimistic about making further substantial progress on Ukraine's accession in 2001 on both the multilateral and bilateral fronts.

The Centre for Trade Policy and Law (CTPL) of Ottawa and Carleton Universities is working with the Ukrainian Ministry of Economy to build Ukraine's capacity to participate effectively in the accession process and to implement their WTO obligations. The "Trade Policy Capacity Building" project involves three areas: (1) technical assistance on international trade issues to address short-term needs in accession to the World Trade Organization; (2) institutional capacity building by developing a Ukrainian Centre Patterned after CTPL Ottawa to meet longer-term needs of both the government and the private sector; and (3) an internship program for graduate students of international trade.



**6. Opening Doors
to Asia Pacific**

Since its inception in 1989, APEC's trade agenda has evolved in response to developments in world trade. APEC Ministers and Leaders will continue to act as an informal caucus in support of strengthening the multilateral trading system. In the declaration that came out of the latest APEC Economic Leaders' Meeting (AELM) held in Bandar Seri Begawan, Brunei Darussalam, in November 2000, Leaders called for an early launch of a new WTO round for the benefit of all WTO Members, particularly least-developed and developing economies. Leaders agreed that a balanced and sufficiently broad-based agenda that responds to the interests and concerns of all WTO Members should be formulated and finalized as soon as possible in 2001 and that a new round should be launched in 2001.

Leaders also called for meaningful progress to be made in the WTO agriculture and services negotiations currently under way. They also instructed Ministers to continue preparing the new round with work on industrial tariffs and reaffirmed their commitment to the moratorium on the imposition of customs duties on electronic transmissions until the next WTO Ministerial Meeting. To increase momentum toward the launch of a new round, Leaders also welcomed the early implementation of a strategic APEC plan on building capacity of APEC developing economies to implement WTO agreements.

Leaders also recognized the need to prepare economies to use technology as a means of achieving the benefits of globalization, and announced the implementation of a policy framework to enable people in all APEC economies to have individual or community-based access to information and services offered by the Internet by 2010. Leaders also announced a wide-ranging action agenda for the new economy that outlines programs that will help our economies use advances in information technology to boost productivity and stimulate growth and extend services to the whole community.

While rule-making and liberalization in future WTO negotiations will be the key means by which APEC member economies will progress toward the goal of free and open trade and investment by 2010/2020, APEC leaders are supportive of the pursuit of WTO-consistent bilateral or regional free trade agreements as an additional way to reach this goal.

The Asia-Pacific Economic Cooperation (APEC) will focus on strengthening its work in the area of trade facilitation. A 1997 APEC study concluded that current commitments by member economies to facilitate intra-APEC trade will have a greater impact on reducing costs and increasing gross domestic product than their current commitments to liberalize trade. A recent 1999 study concluded that APEC trade-facilitation commitments could expand the region's GDP by up to US\$46 billion, whereas liberalization commitments could contribute to GDP expansion by up to US\$29 billion.

The areas of trade facilitation on which APEC is actively working include standards and conformance, customs procedures, business mobility and electronic commerce. This ongoing work in trade facilitation will continue to make regional trade easier and less costly. It will improve the stability and predictability of the business environment and generate new opportunities for networking and partnerships. Canada was very active on the trade facilitation front within APEC in 2000, bringing together experts from all across APEC to consider the benefits of looking at trade facilitation in an integrated manner.

APEC results in 2000

- Developed and implemented the Electronic Individual Action Plan (E-IAP) system, using web-based technology to make Individual Action Plan (IAPs) much more accessible and useful to business.
- Launched the BizAPEC.com Web site, providing a wide range of useful information resources for business.
- Launched a Chemical Dialogue.
- Endorsed a strategic plan to build capacity in APEC to implement WTO agreements.
- Developed a "Road Map" for strengthening markets.
- Completed the APEC Policy Framework for work on services.
- Developed Principles and Features of Good Practice for Technical Regulations and Information Notes.
- Developed an assessment/evaluation approach to measure the implementation of the Sub-Committee on Customs Procedures Collective Action Plans.

- Developed a Program of Implementation Facilitation to assist APEC member economies to implement agreed energy initiatives.
- Developed a general policy framework for co-operation on energy efficiency standards, and a mechanism to facilitate the implementation of a product-by-product approach to the greater alignment of energy performance test procedures.
- Adopted APEC Principles of Interconnection.
- Adopted APEC Principles on International Charging Arrangements for Internet Services of Interconnection.
- Completed the project on "Implementation of the WTO Agreement on Basic Telecommunications" designed to assist APEC member economies with implementations issues related to the Agreement.
- Adopted the APEC Tourism Charter.
- Produced a report on "APEC economies beyond the Asian Crisis", which examines and identifies the long-term implications of the Asian Financial Crisis on APEC economies and their prospects for future growth.
- Completed a project on "Towards a Knowledge-based Economy in APEC", which promotes the use of knowledge as a factor of production, and develops cooperative action for member economies.

In 2001, Canada will continue its efforts to develop a comprehensive initiative to strengthen trade facilitation in APEC, consistent with the direction provided by APEC leaders in Brunei Darussalam, and aiming to expand opportunities for Canadian business in the region. Canada will also continue to push for APEC to address the various areas of trade facilitation in an integrated way, with a view of identifying cross-cutting synergies. In addition, Canada will continue to strengthen APEC's policy dialogue and capacity-building in the area of social policy and structural adjustment. Canada plans to continue to promote meaningful public engagement in APEC, including through dialogue with civil society organizations, in order to build popular support for the economic reforms needed to sustain regional growth and prosperity. Canada will also be working to develop a much more effective strategy for human resources development within APEC.

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

Canada's own APEC Web site is located at this address www.dfait-maeci.gc.ca/canada-apec



Overview

Japan is Canada's third-largest trading partner (after the United States and the European Union), with 2.2 percent of total exports, and is the third-largest source of foreign direct investment in Canada. Canada is a leading supplier to Japan of a number of key products, such as lumber, pulp and paper, minerals, meat, fish, grains and oilseeds, and prefabricated housing. While resource-based exports continue to represent a significant component of our trading relationship, Canada is also becoming an increasingly important source of a range of sophisticated, value-added technology-driven products and services imported by Japan. Aircraft, software, telecommunications equipment, resource and environmental products and services are all entering Japan at a faster rate than before. Japan is also a major source of portfolio investment in Canada, and Canadian direct investment in Japan continues to respond favourably to deregulation and market opportunities in the Japanese economy.

In 2000, Canada's total merchandise trade with Japan increased 9.2 percent over the same period in 1999 and amounted to \$25.6 billion. After a period of declining exports to Japan in the late 1990s, last year marked an encouraging change with Canadian exports increasing by 7 percent to \$9 billion. Imports from Japan continued to grow and in 2000 increased 10.4 percent to \$16.6 billion. Canada exported \$1.5 billion in services and imported \$1.6 billion in 2000. In the light of slowing but steady recovery from the economic recession, the long-term trend in Japan is toward a growing demand for cost-competitive and innovative imports, which represents a significant market opportunity for Canadian exporters.

Through Canada's *Action Plan for Japan*, business and all levels of government are co-operating to take advantage of market opportunities in five key sec-

tors: agri-food and fisheries; tourism; information technology; building products; and health care/medical devices. The action plan also draws attention to new opportunities that have been created in the Japanese market through continuing structural economic change, regulatory reform and changing consumer tastes – opportunities in sectors such as the environment, space, new energy technologies and electricity and education. The action plan alerts Canadian industry to changing market conditions in Japan and encourages them to adapt their products to the Japanese market.

In support of efforts to "re-brand" Canada in Japan as a technologically sophisticated society and to encourage a diversification of our traditional commodities-based trade relationship, the 1999 Team Canada trade mission to Japan emphasized the strengths of Canada's high-technology sectors. These efforts have begun to bear fruit with signs of increased business activity, especially in the high tech sectors. Some two dozen Canadian information technology firms have opened up offices in Japan in the last two years and the share of manufactured goods and value-added services exports to Japan continues to increase.

Building on momentum generated by the Team Canada mission, the Department of Foreign Affairs and International Trade, along with the provincial and territorial governments and with the support of the Japan External Trade Organization (JETRO), has undertaken a series of promotional activities and seminars. Starting with 15 promotional seminars across Canada, including a media tour, these activities have centred around the theme of promoting the "Canada Brand" – an ongoing initiative to update Canada's image in Japan.

Another example of such activities was the creation of a Japanese language Web site that offers a wealth of material on Canada's commercial capabilities in all our priority sectors, as well as information on the wide range of Embassy services. Another was the high-tech symposium held at our Canadian missions in Tokyo and Osaka; this five-day trade promotion event included 26 Canadian companies and attracted the participation of some 1,000 Japanese high-tech companies. In addition, responding to an overwhelming Japanese interest in Canada's high-tech sector, JETRO Chairman Hatakeyama led a business matchmaking "Team Japan IT Mission" to Canada in October 2000.

A few weeks later, the fourth Kansai Canada-West Business Forum in Kyoto attracted over 110 Canadian and 150 Japanese businesses, academia and government leaders for two days of information technology-related speeches, seminars and matchmaking sessions. Concurrent medical, environmental and wireless technology missions made contact with 600 potential partners in Tokyo, Nagoya, and Kyoto.

In order to continue to exploit the opportunities opening up in the various regions of Japan, the regional program was strengthened by the opening of the Trade Section of the Honorary Consulate in Hiroshima in September 2000. The appointment of a commercial officer to the trade section will allow the new office to seek increased opportunities for Canadian and local companies to forge new business relationships, especially small and medium-sized companies.

Further reinforcing our efforts, a Think Canada 2001 festival comprising over 140 events will be held from April through July 2001. This celebration will feature a series of cultural, trade, people-to-people, peace and security, and educational events to take place across Japan. The events will highlight our culture, our technologies, our traditional strengths, and our role in the world in terms of peace and security and environmental management.

Managing the Relationship

Canada and Japan continue to promote trade development and economic co-operation under the 1976 Framework for Economic Cooperation and the Joint Communiqué announced during the 1999 Team Canada mission led by Prime Minister Chrétien. The Joint Communiqué reaffirmed the intention of the two governments to advance regulatory co-operation with a view to facilitating trade in regulated products. It also welcomed the interest expressed by the private sector to undertake a study of bilateral trade and investment opportunities.

While trade policy meetings provide a comprehensive view of the trade and economic relationship, they are complemented by regular issue-specific talks conducted by government departments and agencies in Canada and Japan, in such sectors as telecommunications, culture, building product standards, environment, tourism, air services, oilseeds and transportation, to note a few. This range of themes is indicative of the breadth of our

trade and economic relationship with Japan. In 2000, Canada and Japan initiated a review of the bilateral consultative mechanisms to find ways to strengthen their role in expanding our trade and investment flows.

Regulatory co-operation between Canada and Japan also continues to advance on many fronts, both multilaterally and bilaterally. Canada will continue efforts to extend co-operation in areas like biotechnology, competition policy, customs administration and in particular, will continue discussions between health authorities on the observation of inspections and the possibility of mutual recognition on pharmaceutical good manufacturing practices.

Canada welcomes and encourages private-sector initiatives to improve trade relations, including, the annual Canada-Japan Forum, last held in Tokyo in October 2000, and the annual conference of the Canada-Japan Business Committee (CJBC). At its last conference in Tokyo in May 2000, the CJBC called for "concrete steps toward a Japan-Canada Free Trade Agreement" and proposed the creation of task forces in both countries to study such prospects. This recommendation paralleled the findings of several private-sector studies and reports that Canada and Japan were falling short of realizing the full potential of their relationship. The Canadian and Japanese business communities are, therefore, carrying out an analysis of trade and investment opportunities. Following up on these studies and efforts, the Canadian and Japanese governments, in consultation with the private sector, are also undertaking research and analysis in consideration of ways to enhance our trade and economic relationship.

Market Access Results in 2000

- Entry into force of the Protocol amending the 1986 Convention between Canada and Japan for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.
- Japan implemented a revised Japan Agricultural Standards (JAS) Law allowing foreign organizations to obtain Registered Certification Organization and Registered Grading Organization status provided the foreign country was deemed to have an equivalent system of conformity assessment. In March 2001, Japan recognized Canada's system of conformity assessment for wood products as equivalent to the Japanese system under the JAS Law.

- An agreement reached between Canadian and Japanese officials allows for the export of Canadian live oysters to Japan.
- Regulatory reform and restructuring of Japan's telecommunication services sector resulted in a modest reduction of interconnection rates.
- Japan replaced the system of building product testing and approval based on Section 38 of the Building Standards Law (BSL) with a system allowing for foreign recognized evaluation bodies and foreign recognized approval bodies.
- Japan continued to move toward increased adoption of international (ISO) standards for building products.

Canada's Market Access Priorities for 2001

- continue to press for reduction of duties applied to vegetable oils (particularly canola), processed foods, forest products (spruce-pine-fir lumber, softwood plywood, laminated veneer lumber, oriented strand board and laminated beams), red meats, fish, non-ferrous metals and leather footwear;
- continue to press for the elimination of specific technical and regulatory barriers in Japan to facilitate Canadian exports in such priority sectors as agri-food, building products, and services;
- continued participation in Japan's official consultation process and identification of domestic regulatory impediments that limit economic growth or add unnecessary costs to business and consumers, especially through the identification of regulations and standards which vary from international norms so as to require extensive additional testing and documentation (e.g. Japan Industrial Standards for plastic resins);
- Canada will continue to seek an agreement on Totalization and Social Security with a view to reducing costs of social security contributions and helping to protect the pension rights of employees in both countries; and
- regulators will continue to extend co-operation in areas such as pharmaceuticals, biotechnology, and competition policy, and will continue to welcome further regulatory co-operation in such areas as medical devices, customs procedures, and food.

IMPROVING ACCESS FOR TRADE IN GOODS

Agri-food, Fish and Beverage Products

Japan is the world's largest net importer of agri-food, fish and beverage products. In 2000, Canadian agri-food and fish exports to Japan amounted to \$2.6 billion. Canada seeks further access to this important market and has concerns with Japanese measures regarding tariffs, safeguards, labelling of food derived from Genetically Modified Organisms, and import requirements regarding plant health. In many cases, Japan maintains that its policies conform to the commitments made at the Uruguay Round of negotiations and that any further tariff reduction or market access concessions will be considered in the context of WTO negotiations.

Live Oyster Exports

In response to a specific request from oyster producers in British Columbia, on July 6, 2000, officials from the Canadian Food Inspection Agency and the Japanese Ministry of Health and Welfare reached an agreement that allows for the export of live oysters to Japan.

Safeguard Measure on Chilled and Frozen Pork

Canada remains concerned about the Japanese snapback safeguard measure on pork in the form of an increased minimum import price. Since it was first triggered in 1995, the snapback safeguard has been of significant concern to the Canadian pork sector. As currently administered, this measure creates considerable uncertainty for Canadian suppliers and Japanese importers. Canada is seeking a resolution that addresses the concerns of both exporters and importers in eliminating the negative market impacts of the snapback safeguard. This will be a priority in the WTO agriculture negotiations.

Tariffs on Canola Oil

Japan's duties on imported cooking oils are applied on a specific rate basis, i.e. a certain number of yen per kilogram. As a result of the Uruguay Round Multilateral Trade Negotiations, the specific duties for these products have decreased in Japan. As *ad valorem* equivalents (AVEs) of specific duties are inversely related to import prices (i.e. when import prices fall, the *ad valorem* equivalents rise, and vice

versa), specific duties progressively cushion domestic producers against competition from lower-priced imports, thereby counteracting cuts in specific duty rates. For example, due to the low product prices experienced in 2000, the *ad valorem* equivalents of specific rates on canola oil have ranged from 23 percent to 28 percent. These high tariffs are designed to protect Japan's domestic oil-crushing industry and other related products such as margarine. Canada will seek the maximum negotiable reduction in these high tariffs in the WTO agriculture negotiations.

Labelling of Food Products Containing Genetically Modified Organisms (GMOs)

As of April 1, 2001, Japan is requiring mandatory labelling and import notification for foods containing organisms derived from biotechnology. The requirements apply to crops and food products containing genetically modified organisms which have been previously approved by the Ministry of Health and Welfare. In the case of processed foods, the requirements apply only to ingredients that are among the top three by weight and account for 5 percent or more of the content, also by weight. Foods for which it is not possible scientifically to measure the presence of genetically modified organisms are to be exempted (e.g. canola oil).

The potential impacts of this measure are not fully evident at this time. Many issues remain to be determined, including the scope of the labelling scheme, the extent to which it will be exercised on new products, and whether or not it will be expanded to include other GM crops. Canada has raised concerns about Japan's approach to mandatory labelling of a non-product related production and processing method (for example, in the insistence on a so-called "identity-preserved" system), both bilaterally and in the WTO Committee on Technical Barriers to Trade. Canada will continue to follow this issue closely so that access for Canadian foodstuffs is preserved.

Fish Feed in Airtight Containers

The Japanese customs tariff allows duty-free importation for fish and other animal feed imported in "airtight container not more than 10kg each". Larger containers and those considered not to be "airtight" are subject to a duty of 36 yen/kg (reduced from

40 yen/kg on April 1, 2000). Canada contends that an overly restrictive definition of "airtight" is being employed, which needlessly subjects imports to the tariff.

Greenhouse Peppers

The Canadian greenhouse vegetable industry, specifically in British Columbia, is developing markets for its products in Japan but has been unable to gain access for greenhouse peppers. In November 2000, Canadian Food Inspection Agency provided Japanese officials with data to substantiate Canada's claim that the pest of concern has never been referenced to have occurred in British Columbia. This further supports Canada's position that the province of British Columbia has a pest-free area status as per the International Plant Protection Convention standards.

Hay

In December 1998, Japan approved an import protocol for fumigated hay from Canada. Japan's concern is the introduction of the Hessian fly, which is also a pest of rice. The Canadian hay industry wants to pursue the approval of a heat-treatment protocol, which is deemed to be more economical than fumigation. In early 2000, Canadian Food Inspection Agency presented Ministry of Agriculture, Forestry and Fisheries (MoAFF) with test results of the heat treatment protocol. Upon review, in June 2000, Ministry of Agriculture, Forestry and Fisheries technical experts requested further test data. In November 2000, Canadian Food Inspection Agency officials in conjunction with the Scientific Committee of the Canadian Hay Association, provided Ministry of Agriculture, Forestry and Fisheries with the requested information. MoAFF officials have been invited to observe the new heat treatment, after a commercial trial scheduled to take place in early 2001.

Live Breeding Cattle

In September 2000, the Ministry of Agriculture, Forestry and Fisheries proposed revisions of the animal health requirements for the export of live animals to Japan, with an implementation date scheduled for December 2000. Given the very stringent requirements of the proposed revisions, in November 2000, Canadian Food Inspection Agency

notified the Ministry of Agriculture, Forestry and Fisheries that Canada would not be able to certify breeding cattle for export to Japan under the proposed conditions. The United States and Australia also notified Japan of similar concerns. In December 2000, Canada was notified by the Ministry of Agriculture, Forestry and Fisheries that they had suspended indefinitely the implementation of these new provisions.

Building Products and Housing

In the last two years, the amendments to the Building Standards Law (BSL) which introduced performance-based (rather than prescriptive) building standards and the implementation of a revised Japan Agricultural Standards Law allowing foreign organizations to obtain Registered Certification Organization and Registered Grading Organization status have been the most notable achievements in Japan's deregulation efforts. However, further liberalization and deregulation are needed in order to benefit both Japanese consumers and Canadian suppliers of wooden building materials. To this end, Canada and Japan continue their co-operation through mutual recognition of standards, the exchange of test data for building products, and joint reviews of construction methods.

Canada will continue to consult bilaterally with Japan on the revision of its building codes to aid Japan's objective of stimulating improvements in the quality of housing stock and to facilitate Canadian exports of building materials. Specifically, Canada is working to remove further restrictions on wood-frame construction, for example, through revisions to fire codes to ensure that test methods and test criteria are transparent and to allow foreign organizations to become recognized Evaluation Bodies and Approval Bodies under the new Housing Quality Assurance Act. Canada also urges Japan to remove the prescriptive size limitations from the Building Standards Law and move toward internationally-accepted administrative processes related to fire and international standards for fire tests.

Registered Certification Organizations (RCO) and Registered Grading Organizations (RGO)

In June 2000, Japan implemented a revised Japan Agricultural Standards (JAS) Law allowing foreign organizations to obtain RCO and RGO status provided

the foreign country was deemed to have an equivalent conformity assessment system. Once approved, foreign RCOs/RGOs would be able to inspect and apply the JAS stamp to products meeting the JAS standard. In 2000, Canada applied to the Ministry of Agriculture, Forestry and Fisheries (MoAFF) to confirm "equivalency" for wood products. After extensive consultation, Canada was granted equivalency for wood products in March 2001, thereby allowing Canadian organizations to gain RGO/RCO status and improving market access for wood products.

Tariffs on Spruce-Pine-Fir Lumber

Japan's system of tariff classification distinguishes between the species and dimensions of lumber, regardless of its end use. As a consequence, spruce-pine-fir (SPF) imports, key building components, are subject to duties ranging from 4.8 percent to 6 percent whereas hemlock imported for the same purpose enters duty free. The spruce-pine-fir tariffs are a high priority for Canada, and will be pursued, including in any new WTO multilateral trade negotiations.

Restrictions on Three-Storey Wood Frame Construction

Although three-storey wood frame construction is now allowed in quasi-fire protection zones (QFP), it is restricted to a maximum of only 1,500 square metres, requires severe property line setbacks and requires limiting distance calculations for exterior wall openings. These restrictions severely limit the use of three-storey wood construction in quasi-fire protection. There is also a size limit of 3,000 square metres for non-QFP and wood cannot be used in the construction of special buildings like hotels.

One of the main obstacles to reform resides in Japan's approach to fire codes. The majority of fire performance codes and standards have not been affected by the amendments to the Building Standards Law (BSL). As a result, many aspects of the Building Standards Law relating to fire remain prescriptive, limiting wood construction and rendering wood-frame buildings less economical. Given new building designs, fire prevention and fire-fighting techniques, Canada continues to press Japan that the Building Standards Law as it relates to fire, property line setbacks, and limiting distance calculations should move to performance-based standards.

Revision of Japan Agricultural Standards (JAS) for Building Products

Under the Japan Agricultural Standards (JAS) system specific standards are now reviewed on a 5 year cyclical basis. Canada continues to work with Ministry of Agriculture, Forestry and Fisheries in various technical forums to provide data to assist in the revision of standards related to building products (i.e. structural sawn lumber, machine-stress related lumber, glue-laminated lumber, panel products, etc.) to reflect Canadian test methodology and international standards. These data would include, for example, thickness tolerances on oriented strand board, test data with respect to knot and wane, formaldehyde emissions tests, and others. Canada also continues to press for acceptance of a performance-based approach in JAS standards.

Performance Requirements for Lumber for Traditional Housing

Canada is working to ensure that performance criteria being developed for traditional zairai housing in Japan should not be based solely on the use of tsugi lumber, but rather should recognize the characteristics of other species (e.g. hemlock).

Housing Quality Assurance (HQA) Act

The Housing Quality Assurance (HQA) Act introduces a mandatory ten-year warranty system and a voluntary housing performance indication system for new housing. Canada is encouraging Japan to allow for foreign testing organizations to test performance characteristics and is seeking to ensure that the requirements, and the process for attaining the requisite proof of performance, are not so onerous as to discourage small and medium-sized enterprises from competing in the Japanese market. Canada also continues to urge the Japanese government to accept international approaches to test methods in this regard.

OTHER PRODUCTS

Smokeless Powder Fuel

Canada also has concerns regarding the classification of smokeless powder fuel, imported by Japan from Quebec since 1991, and used primarily as a propellant for fireworks. The United Nations

classifies smokeless powder fuel under 1.3C (defining a "minor" hazard), whereas Japan classifies it, like black powder, under 1.1A, (a "mass explosion hazard"), resulting in significantly greater problems in importing, storing, distributing, inspection and testing for degradation, as well as selling this product. Canada will continue to seek clarification from Japanese authorities as to why smokeless powder fuel is subject to a more dangerous classification in Japan than elsewhere.

IMPROVING ACCESS FOR TRADE IN SERVICES

As an number of international firms doing business in Japan continues to rise, there is an increasing focus on the regulatory and other non-tariff barriers that may be impeding the development of business in underdeveloped areas of the Japanese economy, particularly in services. In those areas where there has been regulatory reform, notably financial services and telecommunications, there has been significant business development. Canada continues to point out areas where further regulatory reform would have similar stimulative effects.

Telecommunications Services

The Japanese market for telecommunications services has seen a significant opening to foreign companies. All restrictions on foreign investment in the telecommunications sector, except in Nippon Telegraph and Telephone (NTT) Corporation, have been lifted. Canada continues to monitor Japanese implementation of GATS commitments for basic telecommunications services and is encouraged by Japan's move to reduce the interconnection rates for foreign carriers to NTT's local and long distance networks.

Several concerns however have been flagged by Canadian companies with respect to: ability of new entrants to access the network; reporting procedures required of new entrants by the Ministry of Public Management, Home Affairs, Posts and Telecommunications; regulation of dominant carriers (the long distance service provider NTT Communications, NTT West and NTT East in the local communication market, and NTT DoCoMo in the wireless market); and the ability of new entrants to build new networks – this could be improved by ensuring fair access (including rights of way) to land

and facilities owned or controlled by utilities and facilitating construction and expansion of infrastructure over public land and facilities. Canada urges Japan to continue to lower the interconnection rates by adopting a Long-Run Incremental Cost (LRIC) system, a pro-competitive methodology for interconnection fees. Canada is also concerned about the independence of the regulator and is monitoring any changes in its role as a result of the former Ministry of Posts and Telecommunications becoming part of the larger general-affairs ministry with the implementation of administrative reform on January 6, 2001.

Financial Services

Japan's financial sector, as a result of ongoing substantial reform through deregulation and restructuring, offers enhanced opportunities for Canadian financial services companies. The elimination of fixed securities commissions in the fall of 1999, in combination with the introduction of internet trading technology, has produced an enormous growth of interest in on-line trading. Relevant developments in the financial sector in 2000 include: efforts to reduce non-performing loans in the banking system; the establishment of a new Financial Services Agency (FSA), which combines both policy and supervisory responsibilities; a new Insurance Business Law (as of June 1, 2000), and legislation under development on deposit insurance. Further efforts at reform and deregulation will lead to a more efficient and sound financial system.

The level of transparency in Japan's financial sector is still a concern. While accounting standards are improving, through moves to mark-to-market accounting and Generally Accepted Accounting Principles standards, further progress can be made, for example, in accounting standards of life insurers. In addition, foreign financial institutions should be consulted systematically on regulatory changes proposed by either the Financial Services Agency or industry associations. Moreover, while recent improvements away from the previous "administrative guidance" approach are welcome, the Financial Services Agency should take greater steps to regulate in a transparent way; the implementation of the "no-action letter" system will promote such a development.

Japan's financial sector is dominated by the banks. The government has taken steps to diversify financial intermediation by adopting measures to create a level-playing field between banks, insurance companies, and securities and investment advisory companies. To the extent that Japan is able to foster a retail investor culture this will increase the efficiency and transparency of the financial system. The Japanese authorities should adopt measures which will strengthen the role of individual retail investors by, for example, introducing tax-advantaged defined contribution pension plans, and eliminating the requirement that a client must physically receive a prospectus before a trade can be confirmed.

Specific concerns in the financial services market have been flagged by Canadian companies with respect to: the need to cease government loan guarantees to incite credit risk pricing in the industry, the need for savings to be shifted from banks to the security market, and a desire to see enhanced protection for foreign investments, including measures that would protect foreign joint venture investors in case of failure of local partners.

Banking

The announcement that the so-called "firewalls" separating operations of financial institutions engaged in more than one financial service (e.g. a bank that conducts both banking and securities activities) will be eased is a positive development, allowing financial groups to centralize certain activities and, thus, benefit from economies of scale. However, Canadian financial institutions are concerned that their relatively small size in Japan means that the added cost of the remaining "firewall" system will pose an undue burden on them. The new rules should be sensitive to smaller institutions' need to contain costs.

Securities and Investment Advisory Companies

Canadian financial institutions see many opportunities in the fund management and brokerage business. But fund registration costs appear to be high compared to other jurisdictions and they could be lowered by further regulatory streamlining. Moreover, the authorities should conduct a fundamental examination of the investment trust disclosure process, to simplify procedures so that they promote the use of electronic delivery.

Insurance

In Japan's insurance market, public sector financial institutions, such as Postal Insurance System (known as Kampo), play an important role. In the light of potential Japanese plans for an expansion of Kampo offerings, Canada considers that public institutions should not be allowed to expand their product lines to compete directly with those being offered by private insurers. Foreign insurance providers should be consulted on any plans for such expansion. Also, public institutions should be made to compete in a manner which does not discriminate against the private sector through, for example, government-backed guarantees.

While recent developments in accounting practices in Japan are welcome, the accounting standards of life insurers should be improved. The current uncertainty within the Japanese public about the health of the life insurance industry can be attributed, in part, to concerns about the true financial health of the companies. The Financial Services Agency should strive for accurate reporting so that the public is fully aware of the relevant safety of their policies. Furthermore, the Financial Services Agency should make clear the level of policyholder protection in the event of a failure.

Legal Services

In the face of globalization, increased merger and acquisition activity, and domestic regulatory reform in Japan, the demand for legal services with expertise in cross-jurisdictional issues to assure due diligence is acute. These services could be provided through the co-operation of Japanese (bengoshi) and foreign lawyers (gaiben), however, due to the restricting structure of specified joint enterprise system, the expertise in Japan is limited and Japan-based businesses often seek services abroad. The Foreign Lawyers Law explicitly forbids partnerships and most joint enterprises between Japanese and foreign lawyers. The exception is a specified joint enterprise system, which allows for such partnerships but limits the scope of their practice to a tightly defined mandate. In addition, foreign lawyers cannot employ Japanese lawyers and are subject to restrictions with respect to the type of advice they are allowed to provide while their Japanese counterparts are not subject to similar limitations. Canada continues to urge Japan to remove restrictions on partnerships and employment between foreign and

Japanese lawyers and to abolish current restrictions on the ability of foreign lawyers to provide legal advice on home or third country law for which they are qualified.

INVESTMENT

Japan is the third-largest source (after the United States and the European Union) of foreign direct investment in Canada of \$6.3 billion. Over 440 Japanese-affiliated companies established in over 740 locations currently create over 52,000 jobs for Canadians. Japan's relationship with Canada through its foreign direct investment greatly enhances the ability of Canadian industry to compete in the global market place. Canada accounts for a relatively minor portion of Japanese foreign direct investment worldwide at 3.7 percent in 1999, according to Japanese Ministry of Finance figures (up from between 1 percent and 2 percent over the previous ten years). Investment has traditionally been in the resource industries and heavy manufacturing but trends indicate a shift to high technology industries. While large greenfield investments still happen, an increasing number of smaller investments, strategic partnering and joint ventures are taking place. These investment decisions are often decided by Japanese subsidiaries in North America, who are assuming the responsibility which had belonged to the Japanese head offices—reflecting the globalization process of successful Japanese industries.

Canadian foreign direct investment in Japan is lagging behind other OECD countries, although there have been some notable investments in the past two years. Regulatory reform in Japan's financial sector and the shift to consolidated accounting should increase financial transparency and encourage more Canadian investment into Japan. On a prefectural level, a growing interest in attracting foreign investment, especially into high technology areas, has been noted, although to date growth in Canadian foreign direct investment has concentrated in the important urban areas.

Japan imposes few formal restrictions on foreign direct investment and is working to remove or liberalize most of the legal restrictions that apply to specific economic sectors. Prior notification is now required only for investment in certain restricted

sectors. However, the longstanding structural impediments continue to hamper foreign direct investment into Japan. These impediments include a high overall cost structure, bureaucratic discretion, exclusive buyer-supplier networks, a lack of labour mobility, bankruptcy regulations, and a lack of financial transparency which serves to inhibit the establishment and acquisition of businesses.

CHINA AND HONG KONG

CHINA

Overview

The People's Republic of China (not including the Hong Kong Special Administrative Region) is Canada's fourth-largest export market. In 2000, Canada's total exports of goods to China reached \$3.7 billion, an increase of 39.3 percent over 1999. The total value of imports of goods was \$11.3 billion, an increase of 26.4 percent over 1999.

With nearly one quarter of the world's population and a growing middle class, China shows great promise as a consumer market. An increasingly Western lifestyle among the urban middle class, along with a softening of the Chinese government's policies, make this market all the more attractive from a Canadian perspective.

As a component of the regular, high-level contact between the two countries, Canada and China engage in formal consultations to review matters of interest and concern related to economic development, trade and investment. The 16th Joint Economic and Trade Committee, which was convened April 2000 in Ottawa, ensured that Canada was able to register its concerns regarding access to the Chinese market, and to communicate its views on economic development and the importance of transparency and rules-based market economics.

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

In February 2001, the Prime Minister led the largest-ever Team Canada mission to China with 600 business delegates and 8 provincial and 3 territorial leaders. The mission raised the profile of Canadian businesses in nine key economic sectors: environmental technologies; agriculture and agri-food; information and communications technologies; education technologies and cultural industries; energy; transportation; mining and minerals; financial services; and medical and health services.

Team Canada's second visit sent a strong message that Canada has a long-term commitment to doing business in China. The presence of the Prime Minister and the provincial and territorial leaders facilitated Canadian businesspeople's access to key economic decision makers in China in three regional markets, and encouraged a more transparent investment and trade environment. The mission ended with \$5.7 billion in new deals for Canadian enterprises.

Despite the opportunities that China presents, a number of significant problems and practices impede full Canadian access to the Chinese market. Canadian companies must bear in mind that China consists of a number of distinct regional markets, similar to the United States or the European Union, each operating and evolving in a distinct and sometimes autonomous fashion. Some elements of the former planned economy remain, however, so in certain types of economic activity, or in projects whose scale exceeds a threshold size, the central government continues to play a key and sometimes decisive role.

WTO Accession

In 1986, China announced its intention to rejoin the General Agreement on Tariffs and Trade but was unable to meet membership requirements in time to be included in the launch of the World Trade Organization in 1995. China has since pursued membership in the World Trade Organization. When it comes into force upon China's accession to the World Trade Organization, the Canada-China bilateral agreement of November 1999 will provide for tariff reductions on Canadian priority goods from an average of 12.5 percent to an average of 5.2 percent over a period of two and a half years, affecting Canadian exports that were worth \$3.7 billion in 2000.

Following the completion of the bilateral agreement, Canada's priority shifted in 2000 to the Working Party negotiations on China's application. Although no single provision of the Protocol of Accession is considered fixed until all outstanding issues have been resolved, progress was positive and steady during the year as China gained a greater understanding of the implications of WTO membership.

The current Chinese trade regime presents real systemic challenges to Canadian companies. The transparency of regulations and decision-making is poor. The impartiality and independence of judicial bodies that review decisions made by Chinese trade and investment regulators is weak. Commercial laws and regulations are often inconsistently applied from region to region due to the increasingly decentralized nature of administration in China. In 2000, Canada played a leading role in the Working Party to address these concerns in China's Protocol of Accession.

Other, more tangible aspects of China's trade regime have been discussed within the Working Party negotiations in the last year. Many of these relate to Chinese policies that treat foreign and domestic companies differently, which is contrary to the WTO principle of "national treatment" for all commercial entities. For example, Canada continues to push for structural changes to China's system of conformity assessment, under which foreign imports are assessed by a completely different organization than domestic products. Another priority has been improving fairness and transparency in the administration of China's tariff rate quota system.

Canada has also sought commitments from China that it will stop certain subsidy programs that target specific industries and distort markets by enabling Chinese companies to charge lower prices. Similarly, we have focussed on Chinese export subsidies for agricultural products as an unacceptable practice since these could undercut normal prices and unfairly erode the international market share of Canadian exporters.

China represents a potentially huge and growing market for Canadian service-providers. Therefore another Canadian priority in the accession has been to address the transparency and fairness of the different procedures and conditions that foreign service-providers must undergo and meet in order to do business in China. Significant progress has been made during the last year.

Accession to the World Trade Organization is very important for China and has been the subject of intense debates within the country's senior leadership over the past several years. Canada wishes China to be part of the World Trade Organization as soon as possible in order to protect and further our substantial trade and investment interests in that country. However, Canada's priority is to ensure that China enters the World Trade Organization on the right terms and in a manner that respects the integrity of the World Trade Organization and of a transparent, rules-based multilateral trading system.

SPECIFIC MARKET ACCESS CONCERNS

Telecommunications Equipment and Services

Sales of Canadian telecommunications equipment are doing well in China. However, there are some concerns about the process of tendering and procurement in this sector, as the Ministry of Information Industry (MII) has at times publicly requested that purchasers of telecommunications products favour locally produced equipment. There are also indications that exporters may face standards-based regulatory barriers that are not applied to domestically manufactured products.

The increasing commercialization of this sector is encouraging, and declining market dominance by former monopoly or para-monopoly carriers will create new opportunities for foreign equipment suppliers. The recent announcement of the establishment of a third national carrier in an effort to increase competition is a move toward deregulation and liberalization of the sector.

The telecommunications services sector in China has remained a high priority in Canada's bilateral negotiations with China on WTO accession, and Canada will closely monitor the implementation of China's GATS commitments in this sector, as well as the treatment of Canadian companies that are already present in the Chinese market.

The Chinese government recently announced that foreign investors are banned from joint ventures in Internet services and with Internet content providers. In the face of reaction from foreign companies already invested in this area, China has committed to examine the possibility that foreign companies could be allowed to invest in this sector.

Newsprint

In 1997, China introduced a new variable tariff on newsprint, with a steep inverse relationship to price and a base figure of US\$550/tonne. This tariff would impose tariffs at rates of anywhere from 3 percent (for high-priced imports) to 45 percent (for imports on the low end of the price scale). Such a variable rate is intended to compensate for loss of revenue from price fluctuations, and is a reaction to a dramatic drop in newsprint prices, which had led to imports being priced lower than domestically produced newsprint. China has agreed that once it joins the World Trade Organization, it will replace this variable tariff with a 15 percent tariff, which will fall to 5 percent over a phase-in period.

In June 1999, China rendered a final decision to impose anti-dumping duties on newsprint from Canada, the United States and the Republic of Korea. The duties range from 57 percent to 79 percent. Canada has raised concerns with the Chinese authorities that the provision for judicial review of dumping and injury rulings by China has not been incorporated into their 1997 Anti-dumping and Anti-subsidy Regulations.

Agricultural Tariff Rate Quotas

In 1997, China announced its intention to implement a tariff rate quota (TRQ) system for a number of agricultural imports. Twenty percent of the value of Canada's exports to China in 1997 would have been affected by this new measure. Under the Canada-China agreement on WTO accession, only two Canadian priority exports will face TRQs:

- canola oil: the tariff rate quota, which will be eliminated within six years of accession, will start at 600,000 tonnes upon accession and will rise to 1.13 million tonnes in five years. Canola oil will face the same tariff level as its main competing oil, soybean oil. No tariff rate quota will apply to canola seed.
- wheat: the tariff rate quota is 7.3 million tonnes, rising to 9.3 million tonnes within four years.

It is particularly important to Canada that China's tariff rate quota system operate in as open, transparent, efficient and predictable a manner as possible, so that it does not distort trade. Canada continues to work closely with China to ensure that the tariff rate quota system does not disadvantage Canadian agricultural products.

IMPROVING ACCESS FOR TRADE IN SERVICES

Although Canadian services providers have gained some access to limited areas of opportunity in the Chinese market, China continues to limit the operations of foreign services companies. Restrictions include: where firms may operate; how many foreign firms can operate in certain sectors; and licensing requirements that discriminate against foreign services firms. In the course of bilateral WTO accession negotiations, Canada succeeded in obtaining commitments to moderate or remove these restrictions once China is in the World Trade Organization, particularly for financial, telecommunications and professional-services sectors, all of which are sectors of Canadian expertise and offer great potential in China.

INVESTMENT

For the past six years, China has been the second-largest recipient of foreign direct investment in the world. Canadian direct investment in China has shown a consistent increase in recent years, rising from \$257 million in 1994 to \$420 million in 1999. The average size of new investments is steadily increasing, and the profile of the average investment is shifting from small family enterprises to more sophisticated operations of multinational companies. Canada continues to consider China a top priority for the negotiation of a Foreign Investment Protection Agreement, and discussions are ongoing.

The Chinese government's stated intention in promulgating the 1995 Interim Regulations Guiding Foreign Investment was to better channel foreign investment into infrastructure-building and basic industries, especially those involving advanced technologies and high value-added, export-oriented products. Priority sectors include transportation, communications, energy, metallurgy, construction materials, machinery, chemicals, pharmaceuticals, medical equipment, environmental protection and electronics. The Chinese government still prohibits foreign investment in projects which have objectives that are not in line with the State Plan. Engaging in foreign trade requires the official permission of the state. There are many areas in which foreign investment is technically allowed, but subject to severe restrictions. While China's investment laws and regulations do not require technology transfer, they

strongly encourage it. Although China has passed an insurance law and is taking steps to reform and develop its domestic industry, it still blocks nearly all foreign companies from the market. Foreign firms are prohibited from owning and managing distribution networks, wholesaling outlets or warehouses.

HONG KONG

Overview

The Hong Kong Special Administrative Region (HKSAR) will maintain considerable autonomy in economic, trade, cultural and political affairs until the year 2047. The region 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", this distinct economy is a member of the Asia-Pacific Economic Cooperation forum and the World Trade Organization.

Hong Kong remains an aggressively free-market economy, with virtually no barriers to entry or doing business. With the exception of excise taxes on autos, fuel, liquor and cigarettes, there are no duties, taxes or quotas on imported goods.

Canadian firms continue to enjoy excellent access to the Hong Kong market, and there are no outstanding bilateral market access issues. The Hong Kong government continues to develop its own economic, fiscal and budgetary policies based on its own interests and its dependence on trade. The policy of minimal government interference in the economy continues to apply equally with respect to trade in goods and services and to investment. In addition to being an attractive market in its own right, Hong Kong remains China's largest port, and the "entrepôt" for most of China's value-added imports and exports, particularly goods exported by small medium-sized enterprises.

INVESTMENT

Foreign direct investment in Canada from Hong Kong continues to show a consistent increase, rising from \$2.7 billion in 1994 to \$3.1 billion in 1999. In general, Canadian investors face few difficulties in the Hong Kong market. Canadian investment in Hong Kong has grown from \$2.1 billion in 1994 to \$3 billion in 1999.

REPUBLIC OF KOREA

Overview

In 2000, Canada's goods exports to the Republic of Korea totalled \$2.2 billion, and imports were \$5.2 billion. Korea is Canada's third-largest market for goods exports in the Asia Pacific region (after Japan and China), and the fifth-largest worldwide.

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

The Canada-Korea Special Partnership Working Group (SPWG), launched in April 1994, has the objective of increasing co-operation in areas such as trade, investment, industrial co-operation and technology transfer. A subcommittee of the Canada-Korea Special Partnership Working Group addresses market access issues. A Committee on Industrial and Technological Cooperation 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. The last meetings of the Canada-Korea Special Partnership Working Group took place in Seoul on September 29, 2000 and October 2, 2000.

Market Access Results in 2000

- In line with representations by Canada, Korea lowered its applied tariff on canola meal from 5 percent to 2.5 percent in July 2000 and maintained the applied tariff on alfalfa at 1 percent.

Canada's Market Access Priorities for 2001

- continue to press for parity of treatment between canola and canola products vis-à-vis soy and soy products;
- continue to make representations on technical bottled water market access problems, such as restrictive government-mandated shelf-life requirements and onerous testing requirements;
- continue to press Korean authorities to obtain the necessary approvals for the sale of seal meat for human consumption in Korea;
- on investment and services, continue to press for inclusion of recent further financial-sector liberalization as part of Korea's international commitments during the new WTO services negotiations; and
- press for prompt implementation of the WTO decision that found a number of Korean measures affecting imported beef in violation of Korea's WTO obligations.

IMPROVING ACCESS FOR TRADE IN GOODS

Canola Seed and Canola Oil

Canadian exports of canola products to Korea are negatively affected by Korean tariff practices in several ways. In January 2000, Korea differentiated between crude and refined canola oil and applied a significantly higher tariff on refined oil. Canola oil is the only imported edible oil that is subject to this treatment. Second, Korea maintains lower tariffs for soybean products than it does for the corresponding canola products, despite the fact that these products are interchangeable and compete with each other on price. Korea also favours the use of tariff escalation, i.e. low tariffs on raw materials and higher tariffs on processed goods, as a means of protecting Korean oilseed processors. Parity of treatment between canola and soy is a high priority for Canada and we will continue to pursue this with Korea.

Tariffs on Feed Peas

Korea's tariff for feed peas is 30 percent. Tariffs for competing feed products are generally less than 5 percent (barley at 1 percent, feed wheat at 1 percent, lupins at duty-free rate). Canada considers that the current tariff discourages the import of feed peas vis-à-vis other feed imports and is to the detriment of the Korean domestic feed industry. Pulse Canada in co-operation with a Korean feed miller has begun trials, the results of which will be presented to the Korean feed industry in a seminar in mid-2001. To allow the Korean compounding industry to have access to this alternative feed product, Canada has requested a tariff of no more than 5 percent 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 considers 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

Canada remains concerned about Korea's trade-restrictive government-mandated shelf-life requirements and onerous testing requirements for bottled water. Canada will continue to make representations in an effort to resolve these issues.

Seal Meat

Korea maintains an import prohibition on seal meat for human consumption by not putting the product on the Korean Food Code. Canada has made numerous representations to Korean authorities since 1995 to have seal meat approved for human consumption, pointing out that Canadian seals are not endangered. The issue was raised again at the September 2000 Canada-Korea Special Partnership Working Group meeting but no progress was achieved. We will continue to press Korea on this issue.

Beef

Canada participated as a third-party to a U.S./Australian led WTO challenge of the method by which Korea administers its tariff rate quota as well as Korean rules and regulations restricting the distribution and marketing of imported beef. The WTO panel ruled that Korea's import regime for imported beef was in violation of its WTO obligations. These measures included: the dual retail system for imported beef and restrictions on the resale and distribution of imported beef. Korea appealed the ruling to the Appellate Body which confirmed the WTO-inconsistency of the Korean measures on imported beef in its decision of December 11, 2000. In January 2001, the World Trade Organization adopted the report. Canada and other WTO Members urged Korea to comply promptly with the WTO findings.

CHINESE TAIPEI (TAIWAN)

Overview

In 2000, Canadian goods exports to Chinese Taipei totalled \$1.1 billion. Chinese Taipei ranked fourth among Canada's export markets in the Asia Pacific region, accounting for 5.7 percent of our total exports to the region. Canada's goods imports from Chinese Taipei in 2000 totalled \$5 billion. In 1999, Canadian direct investment in Chinese Taipei amounted to \$276 million and foreign direct investment in Canada from Chinese Taipei was \$84 million. Chinese Taipei's economy remains very dependent on trade. It is a major exporter, as well as a major source of investment for the region, particularly to China and Southeast Asia, and it is growing as an important regional importer. This has given strong impetus to trade and market liberalization, though domestic political pressures continue to lead to protectionist measures, which affect agricultural and agri-food imports, as well as the financial services area.

Canada's Market Access Priorities in 2001

- on WTO accession, achieve progress in bilateral negotiations related to Chinese Taipei membership in the WTO Agreement on Government Procurement;

- on beef, Canada will continue to press Chinese Taipei to provide equivalency of tariff treatment with U.S. beef;
- on seed potatoes and greenhouse vegetables, continue technical discussions with Chinese Taipei authorities;
- on softwood lumber, continue to press Chinese Taipei authorities to provide a prescriptive building code;
- on medical devices, continue to press Chinese Taipei authorities to recognise the equivalency of Canadian and U.S. quality control regimes; and
- on regulatory changes in agriculture, Canada will continue to press Chinese Taipei to be notified in advance of any changes in its regulations affecting agricultural trade.

IMPROVING ACCESS FOR TRADE IN GOODS

Beef

The long-standing discriminatory tariff treatment of some grades of high-quality beef from Canada compared to equivalent grades from the United States will be phased out as a result of Chinese Taipei's accession to the World Trade Organization. Currently, only certain cuts of Canada Prime and Canada AAA beef attract the Special Quality Beef preferential tariff rates that Chinese Taipei applies to all U.S. high-quality beef (U.S. Department of Agriculture prime and choice). The Special Quality Beef preferential tariff will be eliminated over several years. Furthermore, a preferential tariff on Shin/Shank and Intercoastal (SSI) beef cuts is applied for U.S. SSI cuts but is not extended to Canadian SSI cuts. This preferential tariff will be eliminated upon Chinese Taipei's accession.

Meat Quotas

In mid-1999, as a pre-accession concession, Chinese Taipei implemented most-favoured-nation quotas on imports of several meat products that had previously been banned. These quotas were in place until January 1, 2000, the date Chinese Taipei had hoped to be admitted to the World Trade Organization. In response to pressure from Canada and others, Chinese Taipei re-established the quotas for two further six-month periods, for January to June 2000

and for July to December 2000. Chinese Taipei has announced the extensions of the quotas to March 31, 2001.

Seed Potatoes

Following a request from the seed potato industry in the Western provinces, Canada first approached Chinese Taipei to remove its ban on imports of seed potatoes from Canada in 1993. Chinese Taipei prohibits the importation of seed potatoes from Canada because of concerns about the presence of golden nematode and potato wart in Canada. While Canada has demonstrated that its strict quarantine measures prevent the spread of golden nematode and potato wart outside Newfoundland and Vancouver Island, Chinese Taipei insists on additional survey data demonstrating that the production areas from which potatoes are shipped are free from these pests.

Greenhouse Vegetables

In its efforts to develop export markets, the Canadian greenhouse vegetable industry has indicated that Chinese Taipei is a priority market. Chinese Taipei will not accept tomatoes if it cannot be certified that they originate from an area free from potato late blight type A-2, to which tomatoes are susceptible. Canada maintains that certification that the fruit is free from A-2 late blight is sufficient. Peppers from Canada are banned because they are deemed to be a host for tobacco blue mould, known to have occurred in Ontario. Canada will press for recognition of an area that is free from tobacco blue mould to allow exports from British Columbia.

Softwood Lumber

Chinese Taipei is a major export market for softwood lumber, but only for the lower grades used for packaging. The market is felt to be open to increased use of wood in construction, but the opportunity is held back by the concern of financial and insurance institutions that Chinese Taipei wooden-building code, at four pages in length, is insufficiently prescriptive to provide assurance of adequate quality.

Medical Devices

The Chinese Taipei market holds promise for exporters, but growth has been hampered by Chinese Taipei's inequitable treatment of imports from different countries. Canada's U.S. competitors enjoy access based on Chinese Taipei's recognition of U.S. quality-control regimes, while additional guarantees are required from Canadian exporters. Canadian efforts are under way to obtain equivalent recognition.

Consultations on Regulatory Changes in Agriculture

Canada has expressed concerns to the Board of Foreign Trade regarding the lack of prior consultation on changes to regulations affecting agricultural trade. Some progress has been made over the past year when, for example, Canada was consulted on the extension of food inspection to several food items. Most recently, however, we were disappointed to see that the Chinese Taipei Department of Health implemented amendments to its regulations on food labelling without notifying foreign trade offices. The Department of Health has justified its action by noting that food importers (through their associations) were informed.

WTO Accession

Chinese Taipei's accession negotiations are at an advanced stage. Over the past year, Canadian and Chinese Taipei officials have consulted informally as part of the verification process regarding Chinese Taipei's consolidated goods offer and commitments made in the multilateral (Working Party) context. Canadian officials are ensuring that Chinese Taipei's final schedules will accurately reflect the offers made to Canada in our bilateral market access negotiations that officially concluded in June 1999. Chinese Taipei's market access offers for goods and services will become effective when Chinese Taipei joins the World Trade Organization.

As part of its WTO accession, Chinese Taipei has also applied to join the WTO Agreement on Government Procurement. Canadian suppliers are seeking access to key sectors and assurances that public tendering procedures will be fair and transparent, with an independent mechanism for suppliers to challenge the consistency of procurement actions with the agreement.

INDIA

Overview

The Indian economy has changed dramatically since 1991, when India launched its program of economic reforms and trade and investment liberalization. India's economic growth rate was 6 percent to 7 percent per year from 1993 to 1998, with similar growth expected to be reported for 2000 when final statistics are compiled. Growth for 2001 is expected to remain around the 6 percent mark. The fundamentals of the Indian economy are sound and were not affected by the financial problems in East and Southeast Asia. India is the 4th largest economy in the world in purchasing power parity terms and has the 2nd largest gross domestic product (US\$466.1 billion) among the emerging economies and is predicted to emerge as one of the fastest growing economies in Asia.

The election of a substantial majority government in the 1999 general elections, the resultant political stability and the strength in business confidence indices and the capital market underscore the resurgent prospects for the Indian economy in the short to medium term. The new government has taken measures to further liberalize and streamline the Indian economy. Some of these measures include reducing the customs and excise duty on imports of every kind of information technology hardware, major changes to the ownership laws for mines, allowing foreign firms 100 percent equity in power generation projects and concessional rates of custom duties to mention just a few.

Total Canada-India merchandise trade for 2000 reached \$1.7 billion, with a balance of \$736 million in India's favour.

India welcomes foreign investors with open arms, maintaining relatively few specific exceptions. All business activities are open to foreign direct investment up to 100 percent equity, without any ceiling. No prior approval is necessary, and investment and return on investment can be freely repatriated. Canadian investment in India is relatively modest in comparison with that of other major industrialized countries, with approved direct investment of \$225 million in 1999. The growing Canada-India bilateral trade and investment ties have, since then, been facilitated by a number

of organized business associations, most notably the Confederation of Indian Industry (CII) and the Canada-India Business Council (C-IBC).

India constitutes a potentially massive market for goods, services and technology of all kinds. It offers significant opportunities for trade and investment, particularly in areas of traditional Canadian strengths. These include telecommunications, transportation, agriculture and agri-food, power equipment and engineering, infrastructure development, oil and gas, mining and environmental technology.

Market Access Results in 2000

- Under an agreement announced in January 2000, quantitative restrictions (QRs) and import-licensing requirements will be lifted on 1,429 agriculture, textile and consumer products. Quantitative restrictions on 714 tariff lines were eliminated by April 2000, with the remainder to be phased out by April 2001.
- In October 1999, new telecommunications legislation was passed that will allow basic and cellular service operators to migrate from the existing system of a fixed-licence fee to a revenue-sharing regime. This will enhance market access for new entrants.

Canada's Market Access Priorities for 2001

- press India to respect its WTO Information Technology Agreement commitments, particularly for telecommunications equipment;
- ensure that the accelerated phase-out of quantitative restrictions on the remaining 1,429 tariff lines under the recent (January 2000) Indo-U.S. Agreement is also afforded to Canadian exporters;
- press India to ease existing restrictions on the import of bovine semen from Canada; and
- continue to assist India in reforming its telecommunications policies and regulations.

Telecommunications

India's galloping information technology and telecommunications (ICT) sector is wide open to change, with a healthy annual growth rate of 40 percent projected. India has taken a major step by announcing several policy initiatives to make it

more ICT-enabled, including for example the opening of National Long Distance Operations (NLDO) in telecommunications. The union government will reduce customs and excise duty on the import of every kind of information technology hardware and states will not levy taxes on e-commerce for a period of 3 to 5 years. Internet Services Providers have been allowed to uplink directly to foreign satellites on both K_u and C bands to connect their gateways to overseas backbones, and three G band licenses have been auctioned in order to increase foreign direct investment into the country.

The Indian information technology sector alone is expected to generate US\$70 billion in revenue within the next ten years.

A number of information technology areas are ripe for exploration in India, including Internet applications and services, telecom software, banking and insurance, multimedia and animation, distance education and tele-health, IT-enabled services, and wireless communications technologies. Canada, being one of the most "connected" countries in the world and a leader in the internet economy, is well positioned for the emergence of e-commerce in India, where a newly created Ministry of Infotech has sole responsibility for e-commerce.

A delegation of 35 information technology companies and government representatives from India attended Softworld in Halifax in October 2000, indicating an awareness of Canadian expertise in this sector.

Power

India's power sector promises to be one of the fastest-growing in the world, experiencing annual growth rates in the range of 9 to 10 percent. India's Ministry of Power estimates that India would need an additional 93,000 MW of installed capacity in the next ten years, requiring an investment of Rs. 4 trillion (approximately \$135 billion), in order to meet the rising demand.

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 been implemented in the power sector. Further delaying much-needed projects are the current regulatory regime, complicated state-level approvals

(in addition to those required by the central government) and a lack of transparency in the approvals process. The government has introduced a number of new policies to help move new projects forward. These included the development of central and state regulatory commissions, a new hydro policy, a policy for mega-projects, a policy on privatization of transmission and distribution, and allowing foreign firms 100 percent equity in power generation projects.

State electricity boards are largely in poor financial condition and will need greater support, major reforms and/or privatization to help reduce India's significant power-supply shortage. A number of state electricity boards, with funding from the World Bank and the Asian Development Bank (ADB), have embarked on the path of restructuring their operations. These include the states of Orissa, Andhra Pradesh, Hariyana, Uttar Pradesh, Rajasthan, Tamil Nadu and Kerala. The Canadian International Development Agency (CIDA)-funded energy infrastructure services project in Kerala is aimed at enhancing the capabilities of personnel and restructuring the state electricity board to make it better able to plan for the development of the power sector. 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. The Export Development Corporation (EDC) is quite active in India, having allocated a significant portion of its estimated \$2 billion commitments in India to the power sector.

Mining, Metals and Minerals

Possessing a wealth of mineral resources and a flourishing mining industry that produces over 84 minerals, this sector contributes around 11 percent of India's total industrial production and has the potential to increase this share to 20 percent. With major changes in the ownership laws for mines and expanding opportunities of foreign direct investment, the Indian mines, minerals and metals market has become extremely attractive to foreign companies. In an effort to increase foreign direct investment in exploration, mining, mineral processing and metallurgy, the Indian government has allowed 100 percent foreign investment for all the minerals except diamonds and precious stones. In the case of diamonds and precious stones, foreign

equity positions of up to 74 percent will be allowed automatically for both exploration and mining and exploration operations.

The Indian and Canadian mining sectors are complementary given Canada's capabilities in technology in mining, coal and steel production and metal processing. Areas of potential growth include mineral exploration and mine development, sale of minerals and coal, mineral and coal processing (such as coal washery), mining equipment (including large mining equipment and small components such as drill bits), technical services (including consulting engineering, laboratory and airborne surveying) and management services (including privatisation, venture capital, investment advisory).

Investment in mining (both incoming and outgoing) is becoming a hot area in India. The government is keen to attract and effectively utilize state-of-the-art technology, and modern management methods and expertise, which the major mining houses from other countries bring, along with their capital resources. Indian companies are pursuing investment leads in this sector in Canada. While India is still a developing country, it also has companies with money to invest outside India – the total amount in all sectors could soon surpass the \$100 billion mark.

Agricultural and Manufactured Goods

India maintains a number of restrictions related to balance-of-payments ("negative list"), affecting both agricultural and manufactured goods. The list includes banned items (for example, offal and animal tallow, and bovine genetics) and restricted items that require an import licence. However, the Special Additional Duty (SAD) of 4 percent on imports of edible oils has been withdrawn.

The 1999 central budget moved about 1,000 consumer products from the restricted list to the open general list (OGL). In the agri-food sector, up to 50 percent of the production of export-oriented units (EOUs) are allowed to be sold in the domestic market, as compared to a 20 percent limit in other sectors, thus encouraging foreign investment in the food sector.

As announced on January 10, 2000, the Government of India has agreed to lift quantitative restrictions and import-licensing requirements on a total of 1,429 agriculture, textile and consumer products. The agreement was pursuant to the decision of

August 23, 1999 of the WTO Appellate Body in which the United States had successfully contested the WTO-consistency of the quantitative restrictions maintained by India on the grounds of balance of payments (BoP) problems. The restrictions on a total of 714 tariff lines were eliminated by April 2000, with the remaining 715 to be phased out by April 2001. The benefits of eliminating these restrictions should accrue to all of India's trading partners, including Canada, since under WTO rules the results will have to be implemented on an most favoured nation basis. Canada is monitoring the process.

Since 1997, Canadian government officials have held discussions with the Indian government on the issue of access for Canadian live cattle, embryos and bovine semen. To date no resolution of Canadian concerns has been achieved; however, we continue to pursue the issue as a priority.

The non-transparent licensing system lends itself to inconsistent decisions and circumvention. The purported intent of this system is to protect Indian companies in such sensitive sectors as agriculture and food. The effect of these policies on the Indian economy is to permit both public- and private-sector domestic 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 food and consumer items.

INVESTMENT

Extensive reforms were introduced in India in 1991 to liberalize foreign investment and simplify the approval process. Prior to that time, companies could enter India only if they brought technology with them. Although investors still face certain restrictions, the number of sectors that do not require approvals, or for which approval limits have been raised, has been growing rapidly in recent years. Total foreign direct investment inflows into India have increased dramatically from less than \$300 million in 1992-1993 to more than US\$2.2 billion in 1999. Canadian direct investment in India is still modest, but increased to \$148 million in 1999 from \$122 million in 1997.

According to the current policy, foreign investment can be approved either through the automatic route or by the government. Companies proposing foreign direct investment in areas covered by the automatic

route do not require any government approval. As of December 1999, there are three sectors eligible for automatic approval of up to 50 percent foreign equity participation, 21 sectors automatically that allow up to 51 percent foreign equity and nine sectors that allow up to 74 percent foreign equity. In addition, foreign equity positions of up to 100 percent are given automatic approval in the following sectors: electricity generation, transmission and distribution; and, construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports and harbours. These rules are being reviewed constantly, and more changes, favouring higher levels of foreign investment in more and more sectors, are likely in the short to medium term. Foreign equity participation in sectors not identified above, as well as in sectors eligible for automatic approval but where foreign equity caps are exceeded, will require the approval of the Foreign Investment Promotion Board. A number of other measures have been implemented to facilitate inward investment, including liberalized foreign exchange requirements and administrative procedures, simplified procedures for non-automatic foreign direct investment approvals and opening up of foreign direct investment in the non-banking financial services sector to include credit card business.

Non-resident Indians and overseas corporate bodies with majority non-resident Indian ownership may hold 100 percent ownership stakes in all industries except those reserved for the public sectors (e.g. defence industries, atomic energy, railway transport, coal and lignite). The current investment policy requires no local content for new and existing investment. However, in some consumer goods industries (e.g. automobiles) the Indian government requires the signing of a Memorandum of Understanding (MOU) by the concerned foreign party to ensure net inflow of foreign exchange. Foreign equity must cover the foreign exchange requirement for imported capital equipment.

In November 1997, India announced specific rules applicable to all new foreign automotive sector investment in India. Under the policy, new and existing joint-venture companies seeking to import unassembled kits and automotive components must sign a standardized Memorandum of Understanding with the Indian government with several requirements relating to minimum equity investment,

local-content requirements, export obligations and foreign exchange balancing. Prior to this policy, investors in the auto sector were required to conclude MOUs on a case-by-case basis.

AUSTRALIA

Overview

Australian imports from Canada totalled \$1.2 billion in 2000, while Canadian imports from Australia amounted to \$1.5 billion, for a two-way total of \$2.7 billion. In 1999, Canadian direct investment in Australia amounted to \$3.8 billion and foreign direct investment in Canada from Australia was \$876 million. Canadian sales successes in Australia continue to be oriented toward fully manufactured goods, which is more typical of exports to the United States than to other Asia Pacific markets. Contracts recently signed in the defence and aerospace sectors should result in a significant expansion of Canadian exports. The trade relationship was further enhanced by a May 2000 Canada Trade Mission led by the Minister for International Trade, the Honourable Pierre Pettigrew, in which Canadian firms signed deals worth \$294 million.

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

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. 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).

Market Access Results in 2000

- On salmon, Canada and Australia concluded an agreement resolving Canada's WTO complaint against Australia's ban on imports of Canadian fresh, chilled, and frozen salmon.

Canada's Market Access Priorities for 2001

- continue to work with Australia to ensure the free movement of goods into that country.

IMPROVING ACCESS FOR TRADE IN GOODS

Salmon

In 1975, Australia prohibited the importation of fresh, chilled and frozen salmon due to alleged concerns about fish health. Canada's position has been that there is no scientific basis for the ban.

Canada requested a WTO panel which was established in April 1997. In June 1998, the Panel ruled that the ban was in violation of the WTO Agreement on Sanitary and Phytosanitary Measures (SPS Agreement). Following an appeal by Australia, the WTO Appellate Body upheld the Panel rulings in October 1998. In November 1998, the WTO Dispute Settlement Body (DSB) adopted the Panel and Appellate Body reports. In February 1999, a WTO arbitrator gave Australia until July 6, 1999 to implement the WTO rulings. Australia failed to meet the WTO deadline and on July 15, 1999, Canada submitted a request to the WTO Dispute Settlement Body to retaliate against Australia.

On July 19, 1999, Australia announced new measures allowing limited access for fresh, chilled and frozen salmon. Canada concluded that the new measures were inconsistent with the WTO rulings and requested a WTO panel to rule on the new measures. In February, 2000, the compliance Panel ruled that the new measures were still more trade restrictive than necessary, in violation of Australia's WTO obligations.

Bilateral discussions followed and on May 16, 2000, Canada and Australia reached a bilateral agreement providing access for imports of fresh, chilled and frozen salmon from Canada, subject to certain certification and packaging requirements. Australia implemented the terms of the settlement on June 1, 2000.

On March 21, 2000, the Australia state of Tasmania imposed its own ban on imported salmon. The Canada/Australia May 2000 bilateral agreement provides that Australia will take the necessary steps to ensure full compliance by Tasmania of the WTO rulings. As of January 2001, Tasmania's ban remains in place.

NEW ZEALAND

Overview

In 2000, Canada exported \$192 million in goods to New Zealand and imported \$519 million in return. In 2000, Canada's leading exports to New Zealand were fertiliser, frozen pork, and lumber. Canada was New Zealand's largest foreign supplier of each of these products. In the same period, Canada's leading imports from New Zealand were fresh, chilled and frozen beef and lamb meat. New Zealand's market share for these products were fourth and first, respectively. In January 2001, New Zealand announced that it would purchase 105 light-armoured vehicles worth roughly \$400 million. Total Canadian foreign direct investment in New Zealand was \$1.7 billion in 1999.

Canada's Market Access Priorities for 2001

- Canada will continue to make representations pressing for removal of the ban on imports of trout and sanitary-related restrictions on imports of salmon, trout and char.

IMPROVING ACCESS FOR TRADE IN GOODS

Trout

On January 7, 1999, New Zealand imposed a "temporary" ban on the importation of trout. The ban has been extended on several occasions, most recently to April 7, 2001. Legislation is being proposed to make the ban permanent. New Zealand claims that the ban is for conservation reasons. Canada argues that New Zealand has provided no scientific information to justify the ban on conservation or any other grounds. Canada has made several representations to New Zealand requesting removal of the ban.

Salmon

In 1995, New Zealand approved the importation of headless, gutted, wild, ocean-caught, Pacific salmon products from Canada, based on the conclusion of a 1994 risk analysis document. However, New Zealand maintains a number of sanitary-related restrictions which discourage imports from Canada including a requirement that imported salmon, trout and char, in bulk form, be processed in plants that are not certified for export. This severely limits the number of potential New Zealand importers of Canadian product. Indeed, there are currently no New Zealand plants able to process Canadian salmon. Canada is making representations pressing for removal of these restrictions.

SOUTHEAST ASIA

SINGAPORE

Overview

With one of the world's most open economies, Singapore presents few barriers to Canadian exporters. In 2000, Canadian exports of goods to Singapore were down 2.5 percent to \$368 million, and imports from Singapore were up 11.7 percent to \$1.4 billion. Singapore continues to offer significant opportunities for Canadian exports of goods, services and technologies. Already the region's premier transportation hub, Singapore is investing heavily to position itself as a telecommunications, information technology, financial and life sciences hub and is devoting a large part of its budget to health, education and further infrastructure development. In 2000, Canada entered into exploratory talks with Singapore on a possible bilateral free trade agreement.

Canada's Market Access Priorities for 2001

- encourage partnerships and joint ventures with Singaporean firms in the information and communications technology and life sciences sectors. These sectors have been identified by the Singapore government as key growth sectors and are the target of numerous investment and development schemes that are aimed at enhancing Singapore's role as the telecommunications, financial and technology hub of Southeast Asia;

- seek removal of remaining tariff barriers to trade in goods and improve access for Canadian companies to Singapore services sectors, including financial and professional services, possibly through a bilateral free trade agreement process; and
- encourage resumption of discussions on the outstanding matters with a view to concluding an Air Transport Agreement, following consultations between the respective airlines or completion of Canada's air policy review.

INVESTMENT

Inward foreign direct investment to Canada from Singapore decreased from a total of \$195 million in 1998 to \$152 million in 1999. Canadian direct investment in Singapore remained relatively stable over the same time period at \$2.2 billion in 1998 and \$2.3 billion in 1999. Most of the Canadian direct investment in Singapore is in the form of regional offices, primarily in services sectors, such as banking and other financial services.

The Singapore government is extremely active in investing in key technology sectors, in part, through the creation of several investment funds administered through government statutory boards such as the National Science and Technology Board (NSTB) and the Singapore Economic Development Board (EDB). For example, in April 1999, National Science and Technology Board established a US\$1 billion Technopreneurship Investment Fund to invest venture capital to draw technology and talent into Singapore. Private sector firms could access this fund for the development of new products, as long as 30 percent of the company ownership is Singaporean. This fund is now almost fully committed and has succeeded in its aim of attracting international top tier venture capital companies to locate in Singapore and in making finance more easily available for start-ups in Singapore and in the region. As such, the National Science and Technology Board is now considering setting up a second Technopreneurship Investment Fund to help ensure a continuing supply of funds for venture capital investments, and to sustain and reinforce the triangular relationship between start-ups, venture capitalists and investors.

Additionally, the Singapore Economic Development Board administers several funds aimed at developing

specific technology sectors of the Singapore economy, especially life sciences. These include Life Sciences Investments (LSI), which was established in 1990 to invest in cutting-edge life sciences companies located primarily outside of Singapore. Its first fund of S\$40 million is fully invested, and a second fund of S\$70 million has been allocated for new investments. LSI's mission is to make investments in cutting-edge life sciences companies worldwide thereby promoting spin-off activities in Singapore. Similarly, the PharmBio Growth Fund Pte Ltd. was established jointly by the Singapore Economic Development Board (EDB) and National Science and Technology Board (NSTB) at the end of 1997 as a US\$100 million life sciences investment fund by EDB and NSTB. Its mission is to build and strengthen the capabilities of the life sciences industry cluster in Singapore by making direct equity investments in strategic development, manufacturing and related services projects.

INDONESIA

Overview

In 2000, the value of Canada's goods exports to Indonesia rebounded substantially to \$705 million from \$545 million in 1999, while the total value of imports was \$890 million up slightly from \$865 million in 1999. With continued encouragement from the International Monetary Fund (IMF) and the World Bank, Indonesia is continuing a program of structural economic reform, distressed asset sales and privatization of the state sector, although at a somewhat slower pace than originally anticipated. Liberalization of trade and economic activity continues to be implemented, including a program of decentralisation of government functions to regional administrations although inadequate funding is leading to doubts about a smooth transition. Moreover, there are serious concerns about police actions intervening in the affairs of the Indonesia Bank Restructuring Agency (IBRA) and which is delaying economic reforms through the sale of distressed assets. If this type of activity continues, then Indonesia will have a difficult time attracting foreign investment. Increased security concerns are also challenging a smooth economic recovery by scaring off potential investment.

Market Access Results in 2000

- Canada maintained its market share in wheat (in a rebounding market) in spite of high growth in subsidized imports of wheat (as flour from the Middle East).
- The Canadian Embassy continued to press Indonesian customs authorities to improve transparency and eliminate a check price system which disadvantages some Canadian products.
- The Indonesian government implemented new regulations permitting greater foreign ownership of insurance companies – an action to which Canadian companies have responded.

Canada's Market Access Priorities for 2001

- continue to maintain equitable access for Canadian wheat, especially in the face of aggressive American financing programs and subsidised European Union wheat entering the Indonesian market as flour;
- ensure that Indonesia does not impose increased tariffs on soya beans and other agriculture products;
- ensure that Indonesia's "check price" system does not disadvantage Canadian exporters;
- monitor Indonesia's intention to implement a product labelling system and provide timely advice to Canadian exporters;
- closely monitor Indonesia's follow-through on commitments it has made under the IMF Program of Economic and Financial Reform and Restructuring to ensure that asset sales and privatization are done on a transparent and equitable basis; and
- monitor developments in Indonesia's import regime to ensure that Canadian agri-food products are given the same treatment as competitor products, e.g. customs valuation.

We will continue to monitor developments in ASEAN Free Trade Area (AFTA) negotiations and encourage ASEAN members to implement greater transparency, particularly regarding rules of origin.

INVESTMENT

While total Canadian foreign direct investment exceeds \$9 billion, the flow of new Canadian direct investment has dried up due to continued uncertainties about the future political and economic climate in Indonesia. In addition, the new law on regional autonomy, which was implemented on January 1, 2001, has led to a 'wait and see' attitude amongst potential investors, who are awaiting a clearer understanding of the actually applied regulatory structure and its implications.

A number of Canadian resource companies are actively planning major new investments in the mining and petroleum sectors. Decisions to proceed with these investments are awaiting clarity on the political, economic and regulatory climate. The Embassy is continuing to monitor developments and make presentations on behalf of specific companies.

Canadian investors continue to face numerous challenges in accessing the Indonesian market, including a complex and non-transparent legal system, that does not provide an efficient or effective recourse for addressing commercial disputes. Indonesia's political bodies are making some effort to reform the judicial system. Business firms also continue to face time-consuming procedures in obtaining approvals for licenses and permits required to implement their investment plans. A limited number of sectors are closed to all foreign investment, including freshwater fishing, forestry, public transportation, broadcasting, film making, telecommunications and medical clinics.

The new law on regional autonomy, implemented in January 2001, is a bold attempt by the Indonesian government to decentralize all aspects of the economy except monetary, defence, foreign policy and judicial matters. As a result, it is expected that investment approvals will no longer be dealt with at the national level. Decentralization is causing some initial confusion.

The Canadian government has long supported investment in Indonesia by placing advisors inside the Ministry of Investment/Investment Coordinating Board and other locations under the auspices of the Canada-Indonesia Business Development Office (CIBDO). These Canadian investment advisors in Indonesia have been joined

by a Canadian policy advisor to assist Indonesia to develop and implement a new mining regulatory system. Canadian investment is expected to increase once again as stability returns to the country and obstacles to investment security are removed.

THAILAND

Overview

Until recently, Thailand was one of the fastest-growing economies in the world. In July 1997, however, the economic crisis resulted in a 50-percent decline in the value of the Thai baht against the U.S. dollar, a change of government and an International Monetary Fund rescue package of US\$17.2 billion. These happenings were initially accompanied by a wide array of spending cuts, which were relaxed and then replaced with a substantial fiscal stimulus package aimed at getting the economy growing again. The economy contracted by over 9 percent in 1998, but is recovering, with an estimated 5 percent growth in 2000. Although Thailand still faces serious challenges, notably related to the very precarious situation of its financial sector, its medium- to long-term prospects remain positive, particularly with additional reform legislation.

In 2000, Canadian goods exports totalled \$370 million (up 22.7 percent from 1999), while Thai exports to Canada were \$1.7 billion (up 10.7 percent). The 180-member Thai-Canadian Chamber of Commerce in Bangkok attests to the strong bilateral commercial interest.

Market Access Results in 2000

- In accordance with the WTO TRIMs (Trade Related Investment Measures) Agreement, Thailand's local content rules in the automotive sector were abolished on January 1, 2000. However, automotive products still need to meet the 40 percent ASEAN Free Trade Area content rule. Although the rule was initially due to be lifted in mid-1998, this was delayed as a result of the economic crisis. Under Thailand's old rules, there was a 54 percent local content requirement for passenger cars, a 70 percent requirement for pick-up trucks and a 62 percent requirement for commercial vehicles.

Canada's Market Access Priorities for 2001

- seek permission to operate additional foreign bank branches outside of Bangkok;
- press for abolition of regulations that prohibit foreign banks from lending over 25 percent of their capital to one borrower;
- seek a reduction in the tariff for feed peas to a level comparable to other feed ingredients;
- seek to address the limit on foreign equity investment in joint ventures of 49 percent;
- seek fast-track approval for establishing regional headquarters in Bangkok; and
- ensure full implementation and enforcement of intellectual property rules in accordance with Thailand's WTO obligations.

VIETNAM

Overview

Canada's exports to Vietnam in 2000 totalled some \$50.6 million (up 6.2 percent from 1999). These numbers are quite modest considering that Vietnam's overall imports are approximately US\$15.2 billion, with gross domestic product per capita of US\$368. Vietnam is absorbing increasing levels of debt associated with infrastructure development; however, the International Monetary Fund is satisfied that the fundamental economic indicators are sound. Vietnam is also dependent on large amounts of aid (US\$2.4 billion in 1999).

Vietnam continues to slowly reform its economy and its external trade regime. Fundamental policy questions such as the shift to a market economy and abolition of subsidies to state-owned enterprises are likely to be focussed upon at the plenum of the ruling Communist Party in the spring of 2001.

Market Access Results in 2000

- There have been some positive steps in the Vietnamese economy in 2000, including the establishment of a stock exchange, amendments to the laws on foreign investment in oil and gas, and a new law on formation of enterprises (bringing immediate results in terms of encouraging the private sector in this centrally-planned economy).

- Changes to the trade regime have been more limited, although, with the signature of a bilateral trade agreement with the United States in July 2000 (with expected entry into force in 2001), Vietnam has formally committed itself to establishing a WTO-compliant trade regime. The road map is still being formulated with U.S. technical assistance. The European Union is also reported to be interested in completing a similar agreement as soon as feasible. Japan is coordinating a capacity-building exercise in Asia-Pacific Economic Cooperation, which will begin with a stock-taking of technical assistance provisions.
- Canada has pledged its support for the establishment of a WTO-compliant trade regime by Vietnam. (Canadian International Development Agency [CIDA] has already funded some technical assistance in this area, and Canada has played a strong role in trade facilitation forums.)

Canada's Market Access Priorities for 2001

- advocate (including through Asia-Pacific Economic Cooperation and through the accession process under the World Trade Organization) maximum Vietnamese efforts to open this market to the free flow of goods and services and to develop a more accommodating foreign investment regime;
- play a positive role, through bilateral programs and Asia-Pacific Economic Cooperation, in developing a capacity-building program for trade and economic policy;
- consider a renewal of past discussions with the Vietnamese with regard to bilateral instruments of mutual interest, i.e. agreement for avoidance of double taxation; and
- advocate the specific interests of Canadian companies in the market. In particular, ensure that proposed changes to Vietnam's Mineral Law correspond to the needs of the Canadian mining industry.

MALAYSIA

Overview

Although Malaysia is a relatively small market in the 10-country ASEAN region, it ranked second (after Indonesia) as a destination for Canadian exports in 2000. Canadian exports totalled \$405.8 million in 2000, a decrease of 3.5 percent over 1999. Malaysia is the primary source of Canadian imports from the ASEAN region. In 2000, Malaysian sales to Canada totalled \$ 2.5 billion, an increase of 20.8 percent over the previous year. Nearly 30 percent of Malaysian exports are semi-conductors and other electronic components for Canada's computer industry. The Malaysian economy is well into recovery, and gross domestic product growth for 2001 is expected to be 7 percent. This growth has mainly been driven by exports and public spending. However, continued flat foreign direct investment in manufacturing may hamper growth starting in late 2001, as may mounting inflation.

Market Access Results in 2000

- Malaysia has a relatively open, market-oriented economy and Canadian exporters have not faced major market access barriers. The Malaysian government has continued to liberalize foreign investment requirements in the country, and 100 percent foreign equity is now allowed in investments.
- Similarly, Malaysia has been gradually lifting the exchange control measures it imposed in 1998, which raised serious concerns in the international financial community. Currently, the only measures that remain are the ringgit peg to the American dollar, the non-convertibility of the ringgit outside Malaysia, and a 10 percent tax on repatriated profits from foreign portfolio investment in the country for less than one year.
- The Malaysian government has been encouraging the consolidation of the banking industry by reducing the number of financial institutions in the country from 52 to 10. This has been largely accomplished. The aim is to produce a more streamlined and internationally competitive domestic banking industry. After a politically rough start with complaints from the financial sector about forced mergers, the process appears to be moving along.

- Malaysia's insistence on extending tariff protection for its auto industry until 2005 has raised some questions about its commitment to AFTA, which required lowering of those tariffs by 2002.

Canada's Market Access Priorities for 2001

- monitor both intellectual property (IP) legislation, newly implemented to assist in the development of the Multimedia Super Corridor (problems still exist in terms of enforcement of copyright and intellectual property laws), and foreign-exchange control measures, implemented September 1998, for their impact on Canadian companies;
- monitor Malaysia's commitment to trade liberalization, particularly its impact on the AFTA process; and
- continue to press for progress in corporate governance and judicial reform, which act as non-tariff barriers to Canadian trade and investment.

THE PHILIPPINES

Overview

The country has recently enacted significant reforms in the financial sector. Canadian exports to the Philippines in 2000 amounted to \$387 million, an increase of more than 30.7 percent from 1999, while Canadian imports in 2000 increased to \$1.4 billion. Major Canadian exports to the Philippines include telecommunications equipment, wheat, copper, ore and agri-food products. Following the slump of 1998, exports have resumed their growth. Canadian companies have been quite successful in exporting services to the Philippines, in sectors including transportation, information technology and telecommunications (ICT) and finance.

The administration of President Gloria Arroyo-Macapagal has promised a balanced budget in 2004. Most sources consider that the change in government will be good for the economy. The most positive changes will be the strengthening of the peso and an improved business climate, i.e. lower interest rates plus increased confidence. The slowdown in the United States's economy, however, may reduce exports. The insurance sector is booming and food exports are likely to stay stable. Several large projects that are in the works will continue to move

forward since they are AsDB financed. On the other hand, government contracts may stay on hold until the upcoming May elections. The current fiscal deficit is likely to act as a constraint on government spending.

Canada made a number of high level representations to the Philippines objecting to proposed new meat inspection requirements (Administrative Order 16). Canada considered the new requirements to be more trade restrictive than necessary. A number of other countries also made representations. Canada also raised concerns about the undue delays meat importers were facing in obtaining import permits. The Philippines authorities were responsive to Canadian concerns and in early January announced new requirements (Administrative Order 56). Canada is reviewing the new requirements.

Canada's Market Access Priorities for 2001

- urge continued commitment to economic liberalization and reform, including enactment of stated plans to privatize and deregulate the energy sector;
- continue to argue against protectionism in the agri-food sector and continue to support policies consistent with WTO principles and regulations;
- encourage resumption of tariffs reductions which were temporarily suspended for certain industries in the wake of the Asian economic crisis;
- advocate correction of serious deficiencies in legal protection for intellectual property, including a lack of authority for courts to seize pirated material, difficulties in licensing software and other technology, and delays at the Intellectual Property Office in pursuing cases against intellectual property violators; and
- monitor the implementation of the new inspection rules governing the import of meat and meat products and press for timely issuance of import permits.

MIDDLE EAST

Israel

The Canada-Israel Free Trade Agreement (CIFTA), in force since January 1997, continues to stimulate bilateral trade.

Two-way trade in goods exceeded \$905 million in 2000, an increase of 22.7 percent from 1999. Canadian companies are also strong service exporters particularly in such sectors as transportation and infrastructure. Canadian firms continue to make strong gains in such priority sectors as telecommunications, transportation, agri-food, construction equipment and pulp and paper.

Both Canadian foreign direct investment in Israel and Israeli investment in Canadian companies are estimated to exceed \$1 billion in each direction and investment potential remains high given Israel's attractive investment incentives. Increasing investment activity by Canadian firms in the telecommunications and software sectors has led to significant commercial successes.

Although negotiations on a Foreign Investment Protection Agreement have not progressed, Canadian firms report no difficulties in this market.

The most significant factors in increased trade between Canada and Israel continue to be the absence of tariffs on virtually all industrial products and the reduction of tariffs on many agriculture and agri-food products. As provided for under the CIFTA, Canada and Israel continue to engage in discussions to further liberalize bilateral trade in agriculture and agri-food products. Following consultations with Canadian producers and exporters, Canada will continue to press for improved access to the Israeli market in the following priority areas: prepared foods, frozen foods, fresh and frozen fruit and vegetables, fish and fish products, pulse crops and pet food. Canada is also seeking improved access for pharmaceutical products.

West Bank and Gaza Strip

Canada is committed to promoting trade and investment relations with the Palestinians. The Joint Canadian-Palestinian Framework on Economic Cooperation and Trade will improve market access and customs procedures while supporting emerging industries in this market.



**7 Opening Doors
to Other Key
Markets**

Palestinian law stipulates that a local agent or representative is required to sell into this market. The state of the Middle East Peace Process can affect the movement of goods in and out of the West Bank and Gaza Strip. The Gaza International Airport, while still subject to Israeli security inspections, should provide importers with easier access to the Palestinian Territories and to other Arab neighbours.

SAUDI ARABIA

The Saudi economy experienced strong economic growth in 2000 benefiting from recent firm oil prices. The government has continued to pursue various economic restructuring and deregulation strategies with a focus on encouraging a bigger role for the private sector, diversification and domestic job creation. In 2000, Canada's goods exports totalled \$324 million, an increase of 9.4 percent from 1999, while Canadian goods imports in 2000 increased to \$916 million from \$429 million.

The Saudi government has recently made clear that it sees private sector investment as the main driver of job creation. The key measure in this regard has been the passage of a new foreign investment law and the creation of the Saudi Arabian General Investment Authority (SAGIA), set up as a "one-stop shop" for investment. The new foreign investment law, as approved in April 2000, provides a number of incentives previously offered only to Saudi businesses. Other recent reforms, including the privatization of the telecommunications and electricity companies, as well as the invitation extended by authorities at the beginning of 2000 to international oil companies to present investment plans for the gas sector, including downstream activities, have opened various joint venture and investment opportunities to international investors.

SPECIFIC MARKET ACCESS CONCERNS

Genetically Modified Organisms (GMOs)

The Canadian government has made several bilateral representations to Saudi Arabia in an effort to obtain additional details and to clarify the rationale behind Saudi import restrictions on genetically modified

organisms (GMOs). In December 2000, the Saudi Minister of Commerce announced an outright ban on imports of GMOs, which could result in limited access for many Canadian exports to Saudi Arabia. The Canadian government will continue to address this issue bilaterally, as well as through the WTO Accession process, to ensure that Saudi Arabia lives up to its international obligations.

WTO Accession

Multilateral negotiations regarding Saudi Arabia's accession to the World Trade Organization began in May 1996 and bilateral market access negotiations shortly thereafter. Canada's underlying objective in both is to secure reform and market access commitments that are commensurate with Saudi Arabia's role in global trade and investment.

The WTO Working Party on Saudi Arabia's accession has made significant progress in its examination of Saudi Arabia's foreign trade regime. At its two meetings during 2000, the Working Party began to shift its focus to setting out the detailed terms of the accession. Among other things, Saudi Arabia will be required to assure WTO Members that it is making the necessary changes to bring its foreign economic and trade regime into full conformity with WTO rules upon accession.

Canada and Saudi Arabia achieved significant progress in bilateral negotiations on market access during 2000. In these negotiations, Canada has been seeking lower tariff rates on key agricultural and industrial exports, such as grains, wood products, paper, information and communications technology products and medical equipment. On services, Canada is seeking more open and predictable access for its services providers in such key sectors as telecommunications, professional and financial services. Canada is also seeking improvements regarding the types and level of foreign commercial presence permitted and conditions for the temporary entry of individuals. As the number of outstanding issues is relatively small, Canada hopes to be able to conclude its bilateral negotiations with Saudi Arabia shortly. To further secure market access improvements, Canada will seek to ensure in the Working Party negotiations that Saudi Arabia fully implements its obligations under all WTO Agreements, including the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) and the Agreement on Technical Barriers to Trade (TBT).

SOUTH AFRICA

Overview

Post-Apartheid South Africa is still undergoing transformation – including social and economic adjustments – following the 1994 first democratic elections. Amid a sustained reservoir of international goodwill, the successor to former President Nelson Mandela is keeping course on a tight monetary policy and fiscal discipline. The fundamentals of the South African economy are sound, although the reliance on mineral resources has been a factor in the significant depreciation of the rand (the South African currency) in the last few years against the dollar and the British pound. Economic growth remains lower than expected and unemployment continues to rise. However, South Africa came through the recent various economic crisis better than most emerging markets and there are no fundamental reasons why moderate growth should not occur in 2001. Slower than expected gross domestic product growth (currently around 2 percent annually) is blamed on high oil prices, the effects of floods, the depressed gold price, and perceptions of regional instability.

Relatively upbeat economic predictions for the year 2001 and beyond coupled with a stable political environment as well as a will on the part of the South African government to address the issues of privatization and deregulation, while maintaining the long term goal of making the country more investor friendly, will attract renewed interest on the part of foreign trade and investment partners. The domestic market is characterized by increasing competition in almost all fields, and the need to upgrade or build local infrastructure – already by far the best on the continent – will offer good prospects for economic growth. South Africa's market size of 43 million people, excellent infrastructure, and pro-business environment make it the logical choice for an increasing number of companies seeking a steppingstone to conduct business on the continent, as evidenced by the number of Canadian and other foreign firms that have made Johannesburg their continental base. By far the most advanced, broad-based and productive economy in Africa, South Africa is characterized by standards and business practices similar to those found in

developed countries. The country can rely on a sophisticated financial sector, with well-developed financial institutions and a stock exchange (Johannesburg Stock Exchange) that ranks among the top exchanges in the world. The handling of HIV/AIDs and regional wars will continue to present challenges for the ANC government led by President Mbeki.

An active WTO Member, South Africa participates in the G20 finance initiative, is a member of the Cairns Group, chairs the Non-Aligned Movement and is a key member of regional trade initiatives such as the Southern African Development Community (SADC), the South African Customs Union (SACU) and the Indian Ocean Rim Initiative. A major recent achievement in the country's trade agenda has been the ratification of the South Africa-EU Free Trade Agreement which came into force in January 2000. South Africa is engaged in early consultations with Mercosur with a view to negotiating a trade pact with Latin America.

South Africa offers significant opportunities for Canadian trade and investment, with outstanding potential in mining, transportation, telecommunications and infrastructure development. Canadian foreign direct investment to South Africa grew dramatically in the last three years amounting to \$1.3 billion in 1999 with Placer Dome, McCain, SouthernEra, Hatch and others acquiring large stakes in the country. In addition, South Africa generates substantial outward investment to Canada with large conglomerates such as Anglo American, De Beers, Billiton (now London-based), and Harmony already well established in Canada, with plans to increase their investments. Bilateral trade has risen steadily since 1993 and South Africa is by far Canada's largest trading partner in Sub-Saharan Africa. While trade exchanges have reached a plateau in the last 18 months, new opportunities are being identified in the areas of information technology, e-commerce and telemedicine. The thriving Canada-South Africa trade and investment ties are being facilitated by a proactive bilateral chamber of business in Johannesburg, a high number of business delegations visiting each other's territories as well as by partner projects such as the Canadian Alliance for Business in South Africa (CABSA). Canada's Deputy Minister for International Trade visited South Africa in October 2000 and had a wide-ranging series of consultations with local public and private sector

partners, including with key corporations and agencies interested in developing with Canada third country trade and investment initiatives on the African continent.

Trade and Investment Cooperation Agreement (TICA)

The Trade and Investment Cooperation Agreement concluded in September 1998 provides a framework for enhanced dialogue on bilateral and multilateral trade and investment matters. It established a Consultative Working Group, which had its inaugural meeting in Cape Town in October 2000. The Consultative Group identified market access issues in connection with trade and investment opportunities such as: co-operation in the resumption of WTO negotiations, entry into force of the signed Foreign Investment Protection Agreement, clarification of rules affecting foreign investment in the mining sector, and the issue of delays in obtaining work and residence permits for representatives of Canadian firms based in South Africa.

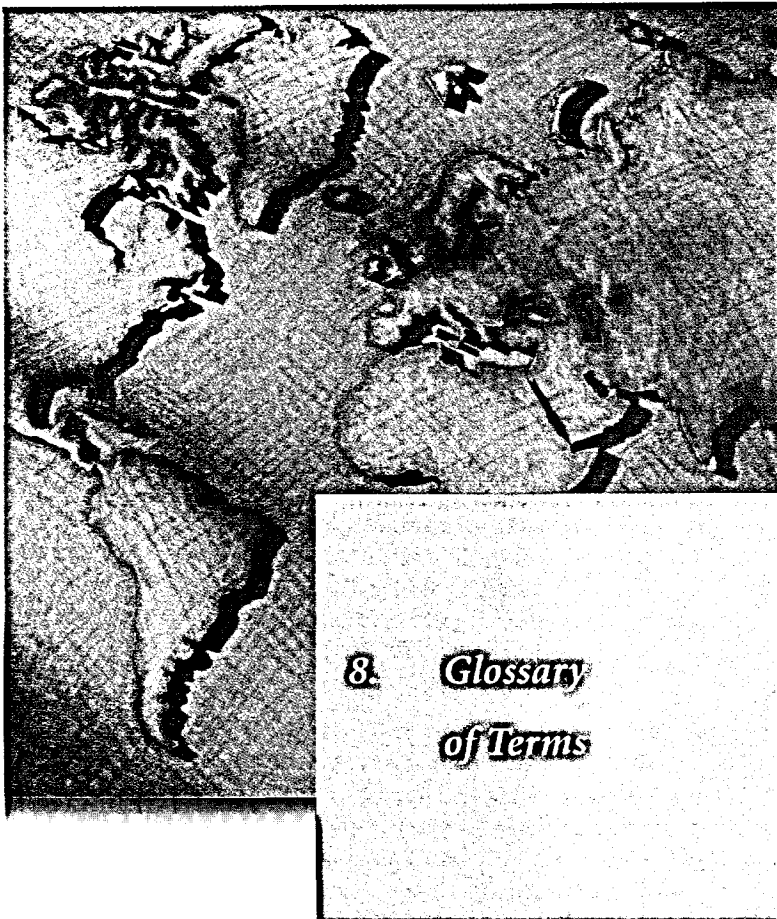
To follow-up in Canada, steps will be taken to hold meetings with business associations to exchange views about the mechanism and ensure that it becomes a useful tool for Canadian industry.

Market Access Results in 2000

- Canada was successful in negotiating a favourable tariff reclassification applicable to off-road vehicles (dump trucks), which improved the competitive situation of Canadian suppliers.
- Foreign suppliers, including Canada, have been monitoring attempts by the local industry to raise duties on imported malt barley.
- Under a funding agreement with the Canadian International Development Agency (CIDA) Canada has been assisting South Africa in developing an industrial strategy in the information technology sector, with a view to promoting more private sector involvement, both local and foreign, in emerging information technology market opportunities.

Canada's Market Access Priorities for 2001

- continue to press the South African authorities to clarify and streamline the rules applicable to exchange controls affecting potential mergers between South African and Canadian firms;
- ensure full clarity on countertrade requirements (both military and civilian) on large procurement contracts, which have in the recent past created transparency problems;
- monitor Canada's competitiveness in South Africa in the light of the recent South Africa/EU Free Trade Agreement which offers more favourable trading conditions to European suppliers;
- seek to eliminate the protectionist registration policies that prevent foreign educational institutions from entering the South African market;
- continue to press for the ratification of a Foreign Investment Protection Agreement.



8. 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. (*Accession*)

APPLIED TARIFFS: An applied tariff is the rate of duty actually in effect at the border. (*Tarif appliqué*)

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. (*Antidumping*)

APEC: Asia Pacific Economic Cooperation forum. APEC comprises 21 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; Peru; the Philippines; Russia; Singapore; Chinese Taipei (Taiwan); Thailand; United States; Vietnam. (*APEC*)

BINDING: A nation's commitment to maintain a particular tariff level or other legal restriction, i.e. binding it against increase or change. (*Consolidation*)

BUILT-IN AGENDA: Refers to a set of activities to be undertaken in the WTO at different times in the future, including reviews and further negotiations, which are already inscribed in the various agreements annexed to the WTO Agreement, plus a series of activities that originate in ministerial decisions or declarations adopted along with the Final Act of the Uruguay Round at the Marrakesh Ministerial Meeting in April 1994. (*Programme incorporé*)

CAIRNS GROUP: A coalition of 18 agricultural exporting countries (Australia, Bolivia, Costa Rica, Guatemala, New Zealand, Argentina, Brazil, Uruguay, Chile, Colombia, Thailand, Philippines, Indonesia, Malaysia, South Africa, Fiji, Paraguay and Canada) that develops proposals on agriculture during the Uruguay Round. (*Groupe de Cairns*)

CANADA-EU ACTION PLAN: Signed on December 17, 1996, the Action Plan is designed to strengthen Canada-EU relations and consists of four parts: Economic and Trade Relations, Foreign Policy and Security Issues, Transnational Issues, and Fostering Links. (*Plan d'action commun Canada-UE*)

CCFTA: Canada-Chile Free Trade Agreement. Implemented July 5, 1997. (*ALECC*)

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. (*SCCI : Stratégie canadienne pour le commerce international*)

CIFTA: Canada-Israel Free Trade Agreement. Implemented January 1, 1997. (*ALECI*)

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. (*TCCE : Tribunal canadien du commerce extérieur*)

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. (*Droits compensateurs*)

CUSTOMS VALUATION: The appraisal of the worth of imported goods by customs officials for the purpose of determining the amount of duty payable in the importing country. The GATT Customs Valuation Code obligates Governments that sign it to use the "transaction value" of imported goods – or the price actually paid or payable for them – as the principal basis for valuing the goods for customs purposes. (*Évaluation en douane*)

DISPUTE SETTLEMENT: Those institutional provisions in a trade agreement which provide the means for settling differences of view between the parties. (*Règlement des différends*)

EFTA: European Free Trade Association. When founded via the Stockholm Convention in May 1960, there were 7 members. Since its foundation the composition changed as new members joined and others acceded to the EU. Currently, there are

four members: Iceland, Norway, Switzerland, and Liechtenstein. (*AELE : Association européenne de libre-échange*)

EXPROPRIATION: The seizure of private property by a foreign Government without just or reasonable compensation. (*Expropriation*)

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 percent or more of the controlling shares of a foreign enterprise makes a direct investment. (*IED : Investissement étranger direct*)

FTA: Free Trade Agreement. In particular, the Canada-U.S. Free Trade Agreement that entered into force on January 1, 1989. (*ALE : Accord de libre-échange*)

FTAA: Free Trade Area of the Americas. Proposed agreement between 34 countries of the Western Hemisphere to create a Free Trade Area by 2005, launched in Miami in December 1994. (*ZLEA : Zone de libre-échange des Amériques*)

GATS: General Agreement on Trade in Services. The first set of multilaterally-agreed and legally-enforceable rules and disciplines ever negotiated to cover international trade in services. (*AGCS : Accord général sur le commerce des services*)

GATT: General Agreement on Tariffs and Trade. Since 1947, the multilateral institution overseeing the global trading system. Superseded by the WTO in January 1995. (*GATT : Accord général sur les tarifs douaniers et le commerce*)

GDP: Gross Domestic Product. The total value of goods and services produced by a country. (*PIB : Produit intérieur brut*)

INTEGRATED FRAMEWORK: A plan for the provision of trade-related technical assistance, including human and institutional capacity-building, for supporting trade and trade-related activities of the least-developed countries, led by the WTO and five multilateral organizations. (*Cadre intégré*)

INTELLECTUAL PROPERTY: A collective term used to refer to new ideas, inventions, designs, writings, films, etc. and protected by copyright, patents, trademarks, etc. (*Propriété intellectuelle*)

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 and telecommunication products. (*ATI : Accord sur la technologie de l'information*)

LIBERALIZATION: Reductions in tariff and other measures that restrict world trade, unilaterally, bilaterally or multilaterally. (*Libéralisation*)

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. (*NPF : Traitement de la nation la plus favorisée*)

NAFTA: North American Free Trade Agreement, involving Canada, the United States and Mexico. Implemented January 1, 1994. (*ALENA : Accord de libre-échange nord-américain*)

NON-TARIFF BARRIERS (MEASURES): Government measures or policies other than tariffs 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. (*Barrières non tarifaires – mesures*)

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. (*OCDE : Organisation de coopération et de développement économique*)

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. (*Programme d'action d'Osaka*)

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. (*Contingent*)

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. (*Règles d'origine*)

SUBSIDY: An economic benefit granted by a Government to producers of goods often to strengthen their competitive position. The subsidy may be direct (a cash grant) or indirect (low-interest export credits guaranteed by a Government agency, for example). (*Subvention*)

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. (*Tarif de douanes*)

TARIFF RATE QUOTA: Two-stage tariff: imports up to the quota level enter at a lower rate of duty; over-quota imports enter at a higher rate. (*Contingent tarifaire*)

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

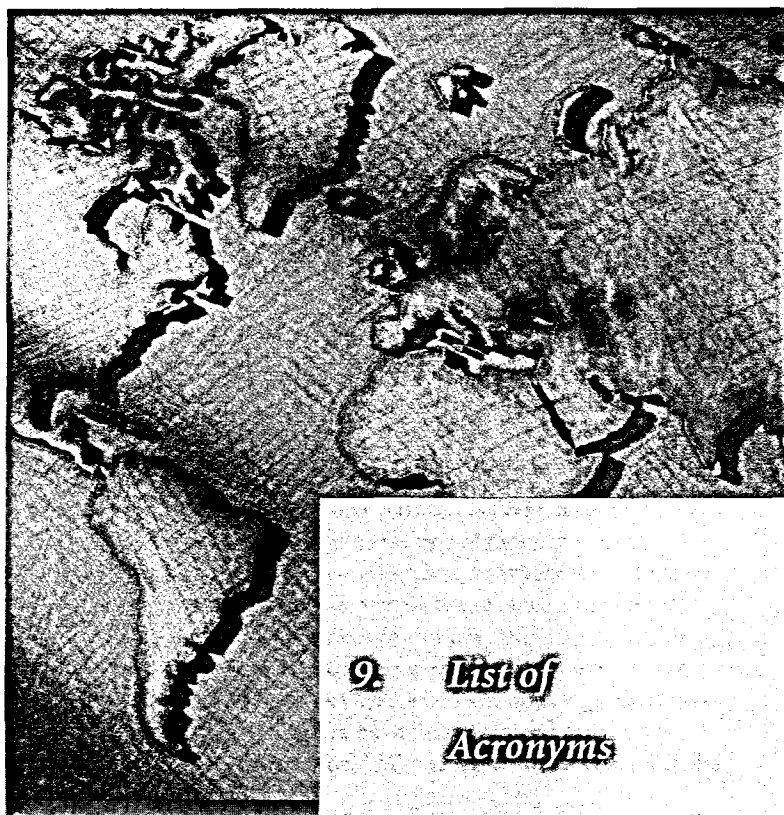
URUGUAY ROUND: Multilateral trade negotiations launched in the context of the GATT at Punta del Este, Uruguay, in September 1986, and concluded in Geneva in December 1993. Signed by ministers in Marrakesh, Morocco, in April 1994. (*Cycle d'Uruguay*)

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

(*OMC : Organisation mondiale du commerce*)

WTO APPELLATE BODY: An independent seven-person body that, upon request by one or more parties to the dispute, reviews findings in panel reports. (*Organe d'appel de l'OMC*)

ZERO-FOR-ZERO: Refers to a market access agreement where all the participating countries eliminate the same barriers on the same products. Although it most frequently refers to tariff elimination, a zero for zero agreement could include elimination of non-tariff barriers as well. (*Accords zéro-zéro*)



9 List of Acronyms

ABT	Agreement on Basic Telecommunications
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AGP	Agreement on Government Procurement
AIT	Agreement on Internal Trade
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
AVE	<i>ad valorem</i> equivalents
BKPM	Badan Koordinasi Penanaman Modal (Indonesia's Investment Co-ordinating Board)
BSE	bovine spongiform encephalopathy
BSL	(Japan's) Building Standards Law
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
CCC	Canadian Commercial Corporation
CCFTA	Canada-Chile Free Trade Agreement
CDIA	Canadian direct investment abroad
CEC	Canadian Education Centre Mexico
CERC	Central Regulatory Commission
CET	common external tariff
CFE	Comisión Federal de Electricidad (Mexico's state electricity firm)
CFIA	Canadian Food Inspection Agency
CIFTA	Canada-Israel Free Trade Agreement
CCPE	Canadian Council of Professional Engineers
CERT	Canada-Europe Round Table
CIDA	Canadian International Development Agency
CUSP	Canada-U.S. Partnership
DFAIT	Department of Foreign Affairs and International Trade
DNA	deoxyribonucleic acid

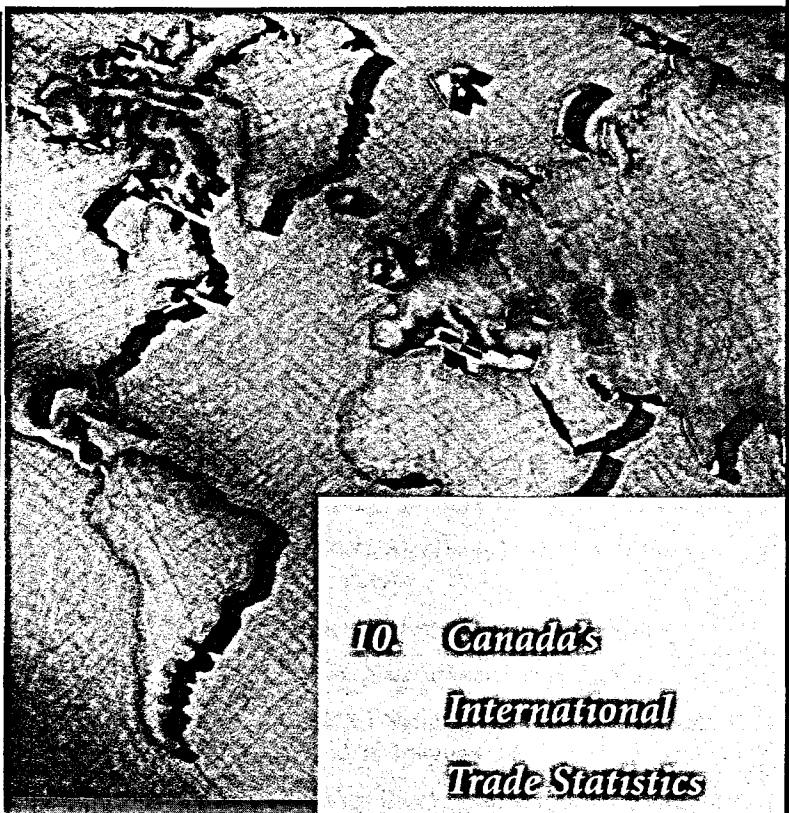
LIST OF ACRONYMS

DSB	Dispute Settlement Body	GMO	genetically modified organism
DSP	distilled spirits plant	GO	DFAIT's Global Opportunities teams of Trade Commissioners
DSU	Dispute Settlement Understanding	GPP	Gross Provincial/Regional Product
DTA	double taxation agreement	G-7/8	Group of Seven leading industrialized nations plus Russian Federation
EC	European Commission	HACCP	(U.S.) Seafood Hazard Analysis Critical Control Point regulations
ECTI	EU-Canada Trade Initiative	HKSAR	Hong Kong Special Administrative Region
EDB	(Singapore's) Economic Development Board	IAP	individual action plan
EDC	Export Development Corporation	ICT	information technology and telecommunications
EEP	U.S. Export Enhancement Program	IDD	international direct dialing (telephone services)
EFTA	European Free Trade Association	IEC	Intergovernmental Economic Commission (Canada-Russia, Canada-Ukraine)
EMC	electro-magnetic compatibility	ILSA	(U.S.) Iran and Libya Sanctions Act of 1996
EMU	Economic and Monetary Union	IMF	International Monetary Fund
EU	European Union	IP	intellectual property
EVSL	Early Voluntary Sectoral Liberalization	ISO	International Organization for Standardization
FCC	Federal Communications Commission	ISTEA	(U.S.) Intermodal Surface Transportation Efficiency Act
FDA	(U.S.) Food and Drug Administration	IT	Information Technology
FDI	foreign direct investment	ITA	Information Technology Agreement (1997)
FEMA	Foreign Extraterritorial Measures Act	ITAR	International Traffic in Arms Regulation
FERC	(U.S.) Federal Energy Regulatory Commission	ITC	U.S. International Trade Commission
FHWA	U.S. Federal Highway Administration	JAS	Japan Agricultural Standards
FIPA	Foreign Investment Protection Agreement	JEC	Joint economic committee
FSA	(Japan's) Financial Services Agency	JETRO	Japan External Trade Organization
FSL	Food Sanitation Law	JMC	Joint Ministerial Committee
FTA	(Canada-U.S.) Free Trade Agreement	LDC	least-developed countries
FTA	U.S. Federal Transit Administration		
FTAA	Free Trade Area of the Americas		
GAO	U.S. General Accounting Office		
GATS	General Agreement on Trade in Services		
GATT	General Agreement on Tariffs and Trade		
GDP	gross domestic product		
GM	genetically modified		

LIBERTAD	(U.S.) Cuban Liberty and Democratic Solidarity Act of 1996 (Helms-Burton Act)	PWN	pinewood nematode
MAFF	(Japan's) Ministry of Agriculture, Forestry and Fisheries	QFP	quasi-fire protection zone
Mercosur	Southern Cone Common Market (Argentina, Brazil, Paraguay and Uruguay)	RAB	Revenue Administrative Bulletin
MFN	most-favoured-nation	R&D	research and development
MII	Ministry of Information Industry	RGO	Registered Grading Organizations
MMPA	(U.S.) Marine Mammal Protection Act	ROU	record of understanding
MMT	Manganese-based fuel derivative	SAGIT	Sectoral Advisory Group on International Trade
MOU	Memorandum of understanding	SBT	(Michigan) single business tax
MRA	Mutual recognition agreement	SCC	Standards Council of Canada
MTCR	Missile Technology Control Regime	SCFAIT	Standing Committee on Foreign Affairs and International Trade
NAFTA	North American Free Trade Agreement	SCP	sugar-containing product
NATAP	North American Trade Automation Prototype	SECOFI	Secretaria de Comercio y Fomento Industrial (Mexico's Ministry of Trade and Industrial Development)
NEBS	New Exporters to Border States	SERC	State Regulatory Commission
NGO	non-governmental organization	SMEs	small and medium-sized enterprises
NIST	(U.S.) National Institute of Standards and Technology	SPS	sanitary and phytosanitary
NSTB	(Singapore's) National Science and Technology Board	SPWG	(Canada-Korea) Special Partnership Working Group
NTB	non-tariff barrier	SRM	specified risk material
NTT	Nippon Telegraph and Telephone	TBT	technical barriers to trade
OECD	Organization for Economic Co-operation and Development	TEA-21	(U.S.) Transportation Equity Act for the 21 st Century
OSB	oriented-strand board	TECA	Trade and Economic Co-operation Arrangement
OSHA	(U.S.) Occupational Safety and Health Administration	TICA	Trade and Investment Co-operation Arrangement
PCB	polychlorinated biphenyl	TNC	Trade Negotiations Committee
PEMD	Program for Export Market Development	TRAI	Telecommunications Regulatory Authority of India
PEMEX	Petróleos Mexicanos (Mexico's state oil firm)	TRIMs	Agreement on Trade-Related Investment Measures

LIST OF ACRONYMS

TRIPs	trade-related aspects of intellectual property rights
TRQ	tariff rate quota
TSE	transmissible spongiform encephalopathies
UN	United Nations
USDA	U.S. Department of Agriculture
USTR	U.S. Trade Representative
WPPs	Working Party on Professional Services (WTO)
WTO	World Trade Organization



***10. Canada's
International
Trade Statistics***

CANADA'S TRADE WITH THE WORLD, BALANCE OF PAYMENTS BASIS (\$ millions)

	Goods				Services		
	Exports	Imports	Balance		Exports	Imports	Balance
1988	143,533	132,715	10,818	1988	1,267	25,863	-6,596
1989	146,962	139,216	7,746	1989	20,777	28,923	-8,146
1990	152,056	141,000	11,056	1990	22,381	33,018	-10,637
1991	147,669	140,658	7,011	1991	23,324	34,743	-11,419
1992	163,464	154,430	9,034	1992	25,122	37,245	-12,123
1993	190,213	177,123	13,090	1993	28,230	41,840	-13,610
1994	228,167	207,873	20,294	1994	32,750	44,413	-11,663
1995	265,334	229,937	35,397	1995	35,796	45,933	-10,136
1996	280,079	237,689	42,391	1996	39,886	48,961	-9,076
1997	301,544	277,751	23,793	1997	43,496	52,853	-9,357
1998	322,517	303,420	19,097	1998	48,848	55,809	-6,961
1999	360,609	326,821	33,788	1999	51,755	57,824	-6,069
2000	417,658	363,164	54,494	2000	56,229	6,814	-6,585

Note: More detailed statistics and discussion of the 2000 Canada's trade and investment performance is available from the "Second Annual Report on Canada's State of Trade", a DFAIT publication soon to be released.

Source: Statistics Canada, Canada's Balance of International Payments, Catalogue 67-001

CANADA'S MERCHANDISE TRADE, BY COMMODITY GROUPING, BALANCE OF INTERNATIONAL PAYMENTS BASIS (\$ millions)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Goods Exports													
Agricultural and													
Fishing Products	12,326	11,572	13,318	13,119	15,339	16,152	18,814	20,966	23,168	24,963	25,143	25,568	27,577
Energy Products	12,771	13,726	13,961	14,109	15,452	17,751	19,200	20,393	26,010	27,089	23,901	29,722	52,538
Forestry Products	21,588	21,465	20,336	18,598	20,017	23,380	29,128	36,745	34,471	34,853	35,174	39,117	41,381
Industrial Goods	31,943	32,273	32,128	31,252	32,380	35,219	42,498	50,899	52,283	56,066	57,453	57,429	64,612
Machinery and													
Equipment	21,665	23,962	28,854	29,294	31,893	36,848	45,700	56,032	61,896	68,219	78,823	85,985	105,574
Automotive Products	34,724	33,971	34,677	32,495	38,101	48,609	57,608	62,917	63,370	69,009	77,415	95,494	96,297
Consumer Goods	2,812	2,637	3,348	3,474	4,469	5,608	7,102	8,316	9,501	10,667	12,424	13,471	14,669
Goods Imports													
Agricultural and													
Fishing Products	7,558	8,256	8,739	9,004	9,736	11,014	12,577	13,375	14,138	15,646	17,262	17,643	18,568
Energy Products	5,176	6,221	8,198	6,629	6,478	6,969	6,960	7,237	9,605	10,629	8,679	10,709	17,753
Forestry Products	1,293	1,358	1,324	1,218	1,387	1,566	1,810	2,038	1,914	2,386	2,498	2,741	3,064
Industrial Goods	25,557	26,929	26,325	24,688	27,278	32,162	39,187	45,569	46,483	54,559	60,286	62,131	70,461
Machinery and													
Equipment	40,721	43,303	42,918	42,885	46,674	53,096	65,717	75,700	76,613	91,315	101,303	108,168	122,740
Automotive Products	33,193	31,943	30,480	30,961	33,680	39,944	47,835	50,086	51,107	60,826	66,763	75,916	77,404
Consumer Goods	13,568	15,023	15,853	16,615	18,943	21,368	23,441	25,546	25,840	29,726	34,574	36,954	40,080
Goods Trade Balance													
Agricultural and													
Fishing Products	4,768	3,316	4,579	4,115	5,603	5,138	6,236	7,591	9,030	9,317	7,881	7,925	9,009
Energy Products	7,595	7,505	5,763	7,480	8,974	10,782	12,240	13,156	16,405	16,461	15,222	19,013	34,785
Forestry Products	20,295	20,107	19,012	17,380	18,630	21,814	27,318	34,707	32,557	32,467	32,676	36,376	38,317
Industrial Goods	6,386	5,344	5,803	6,564	5,102	3,057	3,311	5,331	5,801	1,507	-2,833	-4,702	-5,849
Machinery and													
Equipment	-19,056	-19,341	-14,064	-13,591	-14,781	-16,248	-20,017	-19,668	-14,717	-23,096	-22,480	-22,183	-17,166
Automotive Products	1,531	2,028	4,197	1,534	4,421	8,665	9,773	12,832	12,263	8,183	10,652	19,578	18,893
Consumer Goods	-10,756	-12,386	-12,505	-13,141	-14,474	-15,760	-16,339	-17,231	-16,339	-19,059	-22,150	-23,483	-25,411

Notes: Totals do not include special transactions and inland freight and other BOP adjustments. More detailed statistics and discussion of the 2000 Canada's trade and investment performance is available from the "Second Annual Report on Canada's State of Trade", a DFAIT publication soon to be released.

Source: Statistics Canada, Canada's Balance of International Payments, Catalogue 67-001

CANADA'S SERVICES TRADE BY TYPE, BALANCE OF INTERNATIONAL PAYMENTS BASIS (\$ millions)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Services Exports													
Travel	6,292	6,680	7,398	7,691	7,898	8,480	9,558	10,819	11,749	12,221	13,986	15,114	15,749
Transportation	4,130	4,701	4,920	4,883	5,232	5,790	6,678	7,207	7,905	8,409	8,882	9,385	10,684
Commercial Services	7,963	8,479	9,061	9,814	11,080	13,113	15,492	16,805	19,357	21,936	25,039	26,227	28,771
Government Services	882	917	1,003	937	912	847	1,022	965	875	930	941	1,029	1,025
Services Imports													
Travel	8,445	9,827	12,757	13,753	14,255	14,359	13,678	14,093	15,353	15,895	15,943	16,858	17,983
Transportation	5,849	6,233	6,746	6,760	7,989	9,883	10,528	10,911	10,567	11,512	11,720	12,068	13,806
Commercial Services	10,722	11,995	12,554	13,208	14,050	16,859	19,602	20,260	22,381	24,792	27,466	28,227	30,369
Government Services	847	868	962	1,022	951	739	605	669	661	654	681	672	656
Services Balance													
Transportation	-2,153	-3,147	-5,359	-6,062	-6,357	-5,879	-4,120	-3,274	-3,604	-3,674	-1,957	-1,744	-2,235
Commercial Services	-1,719	-1,532	-1,826	-1,877	-2,757	-4,093	-3,849	-3,703	-2,662	-3,103	-2,837	-2,683	-3,122
Government Services	-2,759	-3,516	-3,493	-3,394	-2,970	-3,746	-4,110	-3,455	-3,023	-2,855	-2,427	-2,001	-1,598
Government Services	36	49	41	-85	-39	108	417	296	214	276	260	358	369

Note: More detailed statistics and discussion of the 2000 Canada's trade and investment performance is available from the "Second Annual Report on Canada's State of Trade", a DFAIT publication soon to be released.

Source: Statistics Canada, Canada's Balance of International Payments, Catalogue 67-001

CANADA'S MERCHANDISE TRADE, BY PRINCIPAL TRADING PARTNER, BALANCE OF PAYMENTS BASIS (\$ millions)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Goods Exports to:													
United States	105,291	108,025	111,566	108,615	123,377	149,099	181,049	205,691	222,461	242,679	269,516	309,397	359,630
United Kingdom	3,798	3,740	3,862	3,243	3,415	3,211	3,677	4,377	4,608	4,462	4,913	5,355	6,448
Other European Union Countries	7,911	8,697	9,264	9,341	9,362	8,798	9,363	13,879	12,796	12,587	12,890	12,875	14,559
Japan	8,998	9,285	8,538	7,644	8,254	9,185	10,788	13,286	12,423	12,268	9,594	9,218	9,919
Other OECD Countries	3,181	3,641	3,899	2,745	3,179	3,361	4,536	4,563	5,088	8,033	7,560	7,161	8,159
All Other Countries	14,355	13,576	14,928	16,082	15,877	16,558	18,754	23,538	22,702	21,516	18,043	16,603	18,941
Goods Imports from:													
United States	92,497	97,298	97,512	97,577	110,379	130,244	155,660	172,517	180,010	211,461	233,777	249,325	267,578
United Kingdom	4,733	4,706	5,022	4,317	4,015	4,484	4,854	4,899	5,581	6,129	6,083	7,688	12,372
Other European Union Countries	10,735	9,974	10,418	10,190	9,908	9,542	11,550	15,390	14,995	18,118	19,188	20,744	21,200
Japan	8,024	8,366	8,319	8,749	8,913	8,478	8,315	8,428	7,227	8,711	9,658	10,594	11,718
Other OECD Countries	3,703	4,125	4,975	4,551	4,616	4,684	7,365	7,942	9,041	11,377	11,393	13,254	18,925
All Other Countries	13,021	14,750	14,754	15,275	16,599	19,691	20,127	20,761	20,835	21,955	23,321	25,216	31,371
					154,430	177,123	207,873						
Goods Balance													
United States	12,795	10,725	14,054	11,037	12,998	18,855	25,388	33,174	42,451	31,218	35,739	60,072	92,053
United Kingdom	- 936	- 965	-1,159	-1,074	- 600	-1,272	-1,177	- 522	- 973	-1,667	-1,170	-2,333	-5,923
Other European Union Countries	-2,825	-1,276	-1,155	- 849	- 546	- 744	-2,187	-1,511	-2,198	-5,532	-6,298	-7,869	-6,641
Japan	973	919	219	-1,104	- 660	707	2,473	4,858	5,196	3,557	-63	-1,376	-1,798
Other OECD Countries	- 523	- 484	-1,077	-1,805	-1,437	-1,322	-2,829	-3,379	-3,953	-3,343	-3,833	-6,093	-10,766
All Other Countries	1,333	-1,172	174	808	- 721	-3,134	-1,373	2,777	1,867	- 440	-5,278	-8,613	-12,430

Notes: Other EU (European Union) countries include: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden. Other OECD countries include: Australia, Iceland, Mexico, New Zealand, Norway, Switzerland, Turkey and new members; Hungary, Poland and South Korea and the Czech Republic.

More detailed statistics and discussion of the 2000 Canada's trade and investment performance is available from the "Second Annual Report on Canada's State of Trade", a DFAIT publication soon to be released.

Source: Statistics Canada, Canada's Balance of International Payments, Catalogue 67-001

FOREIGN DIRECT INVESTMENT IN CANADA BY KEY COUNTRY AND GEOGRAPHICAL AREA, STOCKS (\$ millions)

	United States	United Kingdom	EU Other than U.K.	Japan	Total
1988	76,049	15,696	9,747	3,568	114,175
1989	80,427	15,556	12,342	4,769	122,664
1990	84,089	17,185	14,339	5,222	130,932
1991	86,396	16,224	14,908	5,596	135,234
1992	88,161	16,799	15,056	5,962	137,918
1993	90,600	15,872	15,732	6,249	141,493
1994	102,629	14,693	16,824	6,587	154,594
1995	112,948	14,097	21,778	6,987	168,167
1996	120,527	14,233	23,911	7,864	180,418
1997	132,950	15,375	25,554	8,022	197,885
1998	150,194	15,205	30,030	8,337	219,220
1999	173,340	14,229	30,931	6,362	239,972

CANADIAN DIRECT INVESTMENT ABROAD BY KEY COUNTRY AND GEOGRAPHICAL AREA, STOCKS (\$ millions)

	United States	United Kingdom	EU Other than U.K.	Japan	Total
1988	51,025	8,812	5,291	481	79,763
1989	56,578	11,085	6,247	507	89,851
1990	60,049	13,527	7,098	917	98,402
1991	63,379	15,262	8,505	2,182	109,068
1992	64,502	12,271	9,071	2,521	111,691
1993	67,677	12,907	11,478	2,845	122,427
1994	77,987	15,038	15,620	3,485	146,315
1995	84,562	16,412	18,106	2,739	161,237
1996	93,886	17,825	19,193	2,676	180,616
1997	105,683	21,828	22,158	2,985	209,678
1998	124,405	22,783	28,571	3,404	246,313
1999	134,281	22,885	26,033	4,076	257,408

Note: More detailed statistics and discussion of the 2000 Canada's trade and investment performance is available from the "Second Annual Report on Canada's State of Trade", a DFAIT publication soon to be released.

Source: Statistics Canada, Canada's International Investment Position, Catalogue 67-202