

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

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

OTHER ISSUES

Government Procurement

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

Telecommunications

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

European Free Trade Association

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

Russian Federation

Overview

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

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