INVESTMENT

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

MERCOSUR

Overview

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

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

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

Canada's Market Access Priorities for 1998

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

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

Canada is taking part in the WTO review of the Mercosur CET, currently being carried out under Article XXIV of the GATT governing customs unions and free trade areas. The review is aimed at ensuring the conformity of the Mercosur customs union with all relevant WTO obligations. It also concentrates on specific aspects such as the breaches of certain tariff bindings by individual Mercosur