
China has committed to administer TRQs in a transparent, predictable and uniform manner using clearly defined time frames and administrative procedures. However, Canada has a number of concerns with China's TRQ administration, mainly relating to the lack of transparency in the allocation procedures and the subdivision of TRQ volumes into two categories, one for domestic consumption and the other for processing for re-export. This subdivision of the quota is inconsistent with China's commitment to allow a certain, scheduled quantity of access to the Chinese market. The ability of the Chinese government to change the relative sizes of the two import categories is problematic, since it undermines the fundamental principle of predictability—the objective of a WTO-consistent TRQ system. Canada continues to share its concerns with China over TRQ administration both bilaterally and in the WTO.

Financial Services

China has put in place new regulations in the banking, insurance and fund management sectors, which have provided increased transparency and helped to facilitate foreign investment and competition. However, there are problems with these regulations, which we are seeking to address. The banking regulations contain very high (and inflexible) minimum capital requirements and other provisions that limit the ability of Canadian banks to expand their branch networks and finance lending operations. The insurance regulations remain insufficiently clear and contain high minimum capital requirements. Moreover, complex, multi-stage approval procedures remain for licensing in all financial subsectors.

Canadian-Style Wood Frame Construction

Although only about 10% of urban Chinese own their homes, the Chinese government is now encouraging its people to buy housing. Estimates of the Chinese housing construction market range from 9 million to 18 million units per year. Although it has come under consideration only in the last few years, the Canadian system of wood frame construction is gaining recognition within the developing villa and townhouse niche in China. China's wood frame housing construction market could increase to 50,000 units annually by 2012, from a total of 500 2×4-style homes in 2002. This offers a huge

potential opportunity to Canadian producers of dimension lumber, oriented strand board and/or plywood, as well as suppliers of related goods and services to China.

China is finishing the revision of its building codes. The new Timber Structure Inspection Code (GBJ 206) was approved in August 2002, and the new Timber Structure Design Code (GBJ 5) should be ready for 2003. The previous building codes did not recognize the Canadian system of wood frame construction or reference Canadian products, grading rules or design properties. The Canadian government, in partnership with the Canadian wood products industry, is working closely with the Chinese Ministry of Construction to address amendments to specific codes that will cover wood frame construction. The ability to have input into the development of the Chinese building codes provides Canada with a unique opportunity to influence the future design of Chinese housing. Estimates have been made that, with the new building codes, exports of Canadian softwood lumber to China might triple in 2003. Canadian softwood exports to China increased an average of 72% on year to 190,000 cubic metres in 2001.

In 2002, the Canadian government committed up to \$35 million to expand Canada's wood products markets in countries such as China, which present huge opportunities for the wood products industry. Under this initiative, the federal government, the provincial governments and the industry will work together to increase exports of Canadian wood products and brand Canada as a trusted, reliable and preferred supplier of quality wood products. The initiative will incorporate a number of elements (builder training, housing certification, promotion, etc.) to capitalize on the anticipated outcome of the revisions to the Chinese building codes.

Border Trade

Special measures on border trade have been adopted by China. These measures provide that commodities imported in small volumes by approved enterprises via designated land border ports of entry are subject to import duty and value-added tax at half the usual rates. There are concerns that these preferential measures are being applied to commercial shipments of commodities, such as pulp, to the disadvantage of Canadian exporters. We are seeking clarifications on