

entered Brazil duty-free, and would begin applying a duty, currently set at 12.5%, to all wheat imports. As the largest non-preferential exporter of wheat to Brazil at that time, Canada notified WTO members of its claim of "principal supplying interest" in order to safeguard its right to compensation from Brazil for the non-implementation of this concession and the raised tariff. Brazil's view is that there is no compensation owing because Canada's market share remained unaffected. Canada continues to believe that Brazil has an obligation to fulfill regarding Canada's claim and, in 2003, reiterated its request to Brazil.

Regional Aircraft Dispute

Canada and Brazil have been engaged in negotiations and WTO litigation for the last seven years in an attempt to eliminate subsidies in financing for regional aircraft sales. The WTO has granted both countries authorization to retaliate, but this has not been utilized because both countries prefer to negotiate a long-term resolution to the issue.

Over the past year, negotiations have picked up pace and have become increasingly substantive. The key element of any final agreement, from Canada's perspective, remains the establishment of a financing framework for regional jet aircraft that eliminates government-supported financing from an airline's purchasing decision. A couple of contentious areas remain, and technical work is under way to try to bridge the differences. The Canadian and Brazilian lead negotiators met again early in 2004. While work remains to be done before an agreement is reached, the parties are slowly converging on a common position.

ARGENTINA

Overview

Two years after Argentina's dramatic default and after its currency devaluation, there are increasing signs that the economy is recovering. Output has stopped falling. Consumer confidence is higher than at any point in the last three years. Unemployment has fallen and banking deposits continue to increase. The Argentine government has completely lifted the freeze on bank deposits. However, consumption continues to lag in Argentina. Formidable difficulties remain

in the financial system. Argentina's institutions need to be reformed. Repaying the international financial institutions and holders of bonds in default is also high on the government's list of priorities. Argentina and the International Monetary Fund have agreed to a three-year deal that will reschedule US\$21 billion of multilateral debt, US\$12.5 billion of which is owed to the Fund. Building on increased exports, investments and domestic demand, the economy grew by 5.5% in 2003, according to estimates by the Argentine government. The country's economic growth is expected to be between 4% and 4.5% in 2004.

The World Bank and the Inter-American Development Bank are both expected to release four- to five-year country strategies in early 2004, each with projected lending of US\$5 billion, and each with a focus on infrastructure and "competitiveness"—referring to improved domestic economic efficiencies.

Canada and Argentina signed a Foreign Investment Protection Agreement (FIPA) in 1991. It provides a mechanism by which investors can seek recourse to international arbitration to settle disputes based on the provisions of the FIPA, which in this case includes formal domestic procedures as a first step. Canada also has a Double Taxation Agreement with Argentina and a Trade and Investment Cooperation Arrangement with Mercosur.

Canada is the fifth largest investor in Argentina, with investments in petro-chemicals, mining, printing, publishing and agro-industry. Official Canadian direct investment in 2002 totalled \$1.4 billion, and this amount was increased by significant increments throughout 2003. A recent wave of Canadian investments in the Argentine mining sector has occurred, and the energy and capital infrastructure sectors may also offer potential for further Canadian investment. Although additional investment opportunities exist in these sectors, the extent to which they can be explored depends on Argentina's recovery and its government's capacity to establish a proper and stable environment for investors.

The nascent Argentine economic recovery could provide the impetus for sustained growth in bilateral trade with Canada, which shrank significantly in the two years preceding 2003. In 2003, bilateral trade increased to \$454 million, up from \$367 million in