

Canada currently funds two projects, for a total of \$6.3 million, that provide direct support to Russia's decision makers in their efforts to facilitate Russia's accession to the WTO. These projects are Macleod-Dixon's WTO Assistance and Carleton University's Capacity Building in Trade Policy and Law.

Investment

The protection of Canadian investment in Russia remains a priority for Canada. Canada has a significant interest in Russia, particularly in the mining sector. 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. Concerns for investors in the Russian Federation have included poor corporate governance, the complexity and uncertainty surrounding domestic legislation, lack of effective recourse through the judicial system to resolve investment disputes, administrative barriers and "over-bureaucratization," and unwelcoming or difficult regional authorities. Of particular interest to Canadian investors in the mining sector is the Draft Subsoil Code currently being studied and likely to be amended by the Russian Duma (parliament); the proposed changes are generating a mixed reaction from potential foreign investors and legal experts, with concerns focusing on licensing procedures, lack of clarity in the respective roles of the regional and federal governments, and the absence of any reference to guaranteeing foreign investor participation in large tenders for mineral deposits.

Over the past year, the Russian government has introduced new legislation in areas such as taxation, customs procedures and judicial reform, as well as improving the laws on enterprise bankruptcy and joint stock companies. These moves are encouraging. As well, business registration, licensing and verification requirements have been streamlined, and a new voluntary corporate governance code was introduced in 2002.

The existing FIPA signed between Canada and the former Soviet Union in 1989 provides more limited protection for Canadian investors than recent NAFTA-style investment agreements. Negotiations

toward an enhanced Canada-Russia FIPA have been suspended pending the completion of Russia's accession to the World Trade Organization.

Ukraine

Overview

Canadian exports to Ukraine increased to \$27 million in 2002, which is in line with data from 1999 and 2000. Canadian exports increased across a wide spectrum of mostly manufactured products, due to growth in the Ukrainian economy. Canada's export market in Ukraine is for unique, value added, highly engineered products, typically in the energy, construction, agriculture and agri-food sectors. Significant land reforms have also spurred investment in Ukraine's agriculture sector, which has resulted in growing Canadian exports of machinery and livestock.

Imports from Ukraine continue to be dominated by a variety of steel products and, as a result, have been subject to some volatility. Counterbalancing this are textile and clothing imports, which have been showing increasing strength over the past three years. In addition, 2001 recorded the first-ever imports of meslin and oats to Canada, reflecting the above-noted land reforms, resulting investment and increased production.

Canada-Ukraine bilateral trade peaked at \$148 million in 2000, with the balance historically in Ukraine's favour due largely to significant steel imports from Ukraine, and then fell to \$81 million in 2001 before rebounding to \$112 million in 2002. Mid-year figures for 2002 show some stabilization at this level but with greater product diversification and less reliance on steel imports.

Canada ranks in the top 15 foreign investors in Ukraine at close to \$80 million, particularly in the energy sector and in glass manufacturing. Canada has a foreign investment protection agreement with Ukraine.

The Canadian government is working to improve access to the Ukrainian market and expand bilateral trade and investment through WTO accession