

and be 100% U.S.-manufactured. Rolling stock (trains, buses, ferries, trolley cars, etc.) components must have 60% U.S. content, with final assembly occurring in the United States. The codification, in 1998, of a definition of "final assembly," which was formerly left to the discretion of the procuring organization, has resulted in a further narrowing of opportunities for Canadian suppliers to participate in such projects.

Similar conditions prevail for airport projects that receive funds from the Federal Aviation Administration as authorized by the Airport and Airways Facilities Improvement Act. Such projects require that all steel and manufactured products have 60% U.S. content and that final assembly occur in the United States. Canada will continue to press for improved access to procurement markets in these areas.

### **State and Local Government Preferences**

A wide variety of procurement preferences exist at the state and local levels. For example, in 2000, New York State amended legislation resulting in the addition of Ontario and Quebec suppliers to a list of several U.S. states whose suppliers are excluded from New York State procurement. Ontario and Quebec suppliers were removed from this list in 2001. In addition, many U.S. federal government Buy America provisions are included in state and local procurement when federal funding is provided. Canada remains concerned that access for Canadian suppliers is constrained and unpredictable as a result of these preferences. Canada will continue to press for elimination of U.S. state and local level preferences.

### **Legislative and Regulatory Changes**

Regulations in civilian and defence procurement, which can affect market access for Canadian suppliers, change constantly. Canada continues to press the United States to clarify and resolve potential inconsistencies between its NAFTA obligations and certain acquisition procedures that appear to limit Canadian participation. These include simplified acquisition procedures for all procurement under US\$100,000 and those used for commercial items to a value of US\$5 million. Recent legislation regarding procurement by the Department of Homeland Security

broadens the use of simplified acquisition procedures. Canada is also concerned about the propensity of U.S. legislators to incorporate restrictive procurement provisions into legislation, such as appropriations acts, on an ad hoc basis. Often relating to specific products, such action appears to be taken without full consideration of the potential for inconsistency with international trade obligations.

## *Mexico*

### **Overview**

As NAFTA celebrates its 10th year in 2004, the benefits of the Agreement are clearly visible. According to Statistics Canada, Mexico is now Canada's sixth most important export market, and fourth largest source of imports. Total two-way trade reached \$14.4 billion in 2003.

January 1, 2003, saw the elimination of most remaining customs duties between the three NAFTA partners. This has increased market opportunities for exports but also led to greater protectionist pressures in Mexico, primarily from groups who believe that they are adversely affected by the market opening.

The pressure led to the signing of a National Agreement on Agriculture, committing the Fox Administration to increasing financial support for Mexican agriculture and to using every instrument at its disposal to protect the agriculture industry, including the increased use of non-tariff barriers. The use of safeguard and anti-dumping investigations is increasing, along with the emergence of new trade disputes.

Mexican mid-term congressional elections in July 2003 resulted in a political setback for the ruling Partido Acción Nacional (PAN), which received only 31% of the vote. The main opposition Partido Revolucionario Institucional (PRI) gained most from the PAN's loss, even though no party won a clear majority in the elections. The administration of President Vicente Fox is facing a relatively divided Congress and will have to negotiate extensively as it attempts to pass legislative reforms through to 2006.