to trade and investment. Also envisaged is 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). Mercosur represents a major export market for Canadian manufacturers of information technology (IT) and communication equipment.

ARGENTINA

Pork

On September 30, 1997, CFIA officials and their Argentine counterparts reached agreement on a one-year pilot project allowing for the export of fresh, chilled and frozen pork from Canada to Argentina, and the export of fresh, chilled and frozen beef from Argentina to Canada. Technical requirements in both countries had previously prevented trade in these products. The pilot project relates only to technical measures. Imports from Argentina are subject to Canada's beef tariff rate quota. Following the resolution of a few remaining technical problems, Canadian pork producers were able to start shipping in early 1998 and ended the year with $90 million dollars in exports to Argentina. The pilot project has been extended twice, most recently until July 1, 1999, pending further technical bilateral discussions aimed at reaching agreement on a permanent arrangement. These discussions are continuing.

Investment

Technical discussions on upgrading the existing FIPA between Canada and Argentina were initiated in January 1998. Canada's objective is to improve the existing agreement to provide additional stability and transparency to an already positive bilateral investment relationship. Canadian direct investment, estimated to reach US$2 billion by the year 2000, remains the basis of Canada's commercial relationship with Argentina. Canada ranks as the third most important foreign investor in Argentina and is expected to stay in the top five until at least the year 2000. The main focus of this investment has been the oil and gas, mining and energy sectors.

BRAZIL

In January 1999, the Brazilian government decided to allow the exchange rate for the Real to float on global currency markets. As the Brazilian government seeks to adjust its fiscal and monetary policies, there will likely be increased volatility in the Real's exchange rate to the U.S. and Canadian dollars. This anticipated volatility in the value of the Real may have some short term impact on the competitiveness of Canadian exports in the Brazilian market. With time, it is expected that the Brazilian government will complete these policy adjustments and that the economic situation will stabilize. Foreign Affairs and International Trade will maintain "business as usual", in that we will monitor market access conditions to ensure that Canadian exporters are made aware of any new import policies of the Government of Brazil and that such policies remain consistent with Brazil's international trade obligations.

PROEX

PROEX, a Brazilian export subsidy, reduces financing costs for Brazilian exports under its "interest equalization" component. While PROEX applies to a wide range of exports of Brazilian goods and services, Canada is particularly concerned about its application in the aircraft sector and has requested a WTO dispute settlement panel to examine the matter. Brazil has, in return, challenged various Canadian programs that support the Canadian aerospace, as well as other, industries. The WTO is examining the two challenges under separate Panels, both of which are expected to provide their decisions in mid-March 1999.

Increasing Protection for Canadian Investment

Brazil has long been the recipient of more Canadian investment than most other South American countries combined, and recent constitutional changes have further opened the country to foreign investment in key areas of interest to Canada such as telecommunications, mining and energy. Brazil is also currently undergoing an extensive privatization program.