countries that occurred when the CET was implemented. The review process provides for compensation in certain situations, and Canada is pursuing this avenue with Mercosur.

As part of the examination of these breached tariff bindings, Canada is also reviewing the impact on Canadian exports of the temporary three percentage point tariff increases introduced by Mercosur countries at the end of 1997.

ARGENTINA

Pork

On September 30, 1997, the Canadian Food Inspection Agency (CFIA) and its Argentine counterpart signed a one-year veterinary 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.

Notwithstanding the signing of the pilot project, Argentine importers continued to experience difficulties in obtaining import permits for Canadian pork from Argentine authorities. The Canadian Embassy and the CFIA made several representations to Argentine authorities to rectify the situation. The problem now appears to be resolved as we understand that import permits are now being issued. The Canadian Embassy will provide appropriate assistance to Argentine importers of Canadian pork, if they experience further difficulties. Since the pilot project only lasts for one year, the CFIA plans to resume discussions with Argentine authorities to reach agreement on a permanent arrangement.

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

Increasing Protection for Canadian Investment

Brazil is one of Canada's highest-priority countries for negotiating a FIPA due to the significant levels and long history of Canadian investment in that country. Current Canadian direct investment in Brazil is valued at more than $2.7 billion, and continues to grow at a high rate. Even before the recent constitutional changes, which opened Brazil to foreign investment in key areas of interest to Canada (telecommunications, mining and energy), and the extensive ongoing privatization program, Brazil was the recipient of more Canadian investment than most other South American countries combined.

During Prime Minister Chrétien's visit to Brazil with Team Canada in January 1998, the Brazilian government signed a Declaration of Intention to initiate the negotiation of a FIPA by June 1998.

Import Credit Restrictions

In 1997, Brazil introduced provisional measures requiring Brazilian importers to finance their purchases through domestic rather than foreign banks, thereby voiding the competitive disadvantage imposed on local producers by the high-interest rate policies of the Brazilian government. More specifically, the restrictions require that foreign exchange for imports that are financed up to 179 days must be purchased immediately upon clearing the goods through Brazilian customs, i.e. the 180-day credit is eliminated. For goods financed between 180 and 360 days, foreign exchange must be purchased six months before the loan matures. In other words, importers either pay cash on sight for imports, or secure greater than 360-day financing terms from the exporter. The provisional measures do not apply to shipments valued under US$10 000 or to petroleum products. The Brazilian Central Bank has exempted from these measures its Mercosur partners, as well as Chile, Bolivia and signatories to the Latin American Integration Association dispute resolution agreement. These regulations are being addressed under the