

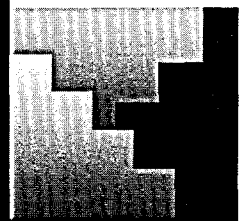
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CANADA'S  
INTERNATIONAL  
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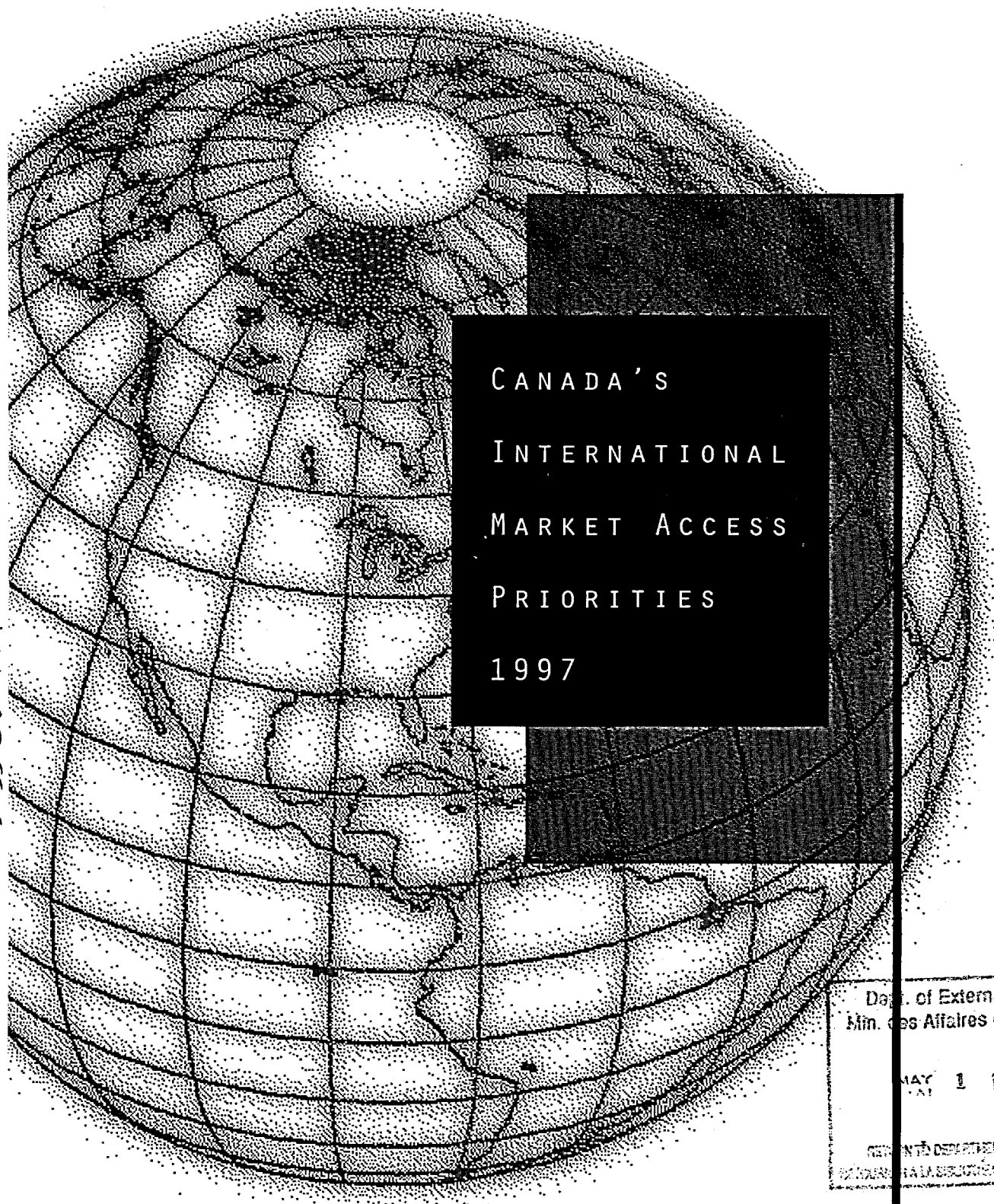
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## MESSAGE FROM THE MINISTER FOR INTERNATIONAL TRADE

Canadians are taking the world by storm. Our total exports reached a record level in 1996 as more and more Canadians took their products to the global marketplace.


One of the reasons for our strong trade performance is the success we have had in bringing down barriers to trade — both through the creation of the World Trade Organization (WTO) and through the North American Free Trade Agreement (NAFTA).

Better access to foreign markets means more opportunities for Canadian exporters, and therefore more jobs for Canadians. But there's more that we can do. To outline the range of activities we will pursue to further enhance access to key markets, I'm pleased to present *Canada's International Market Access Priorities* report for 1997.

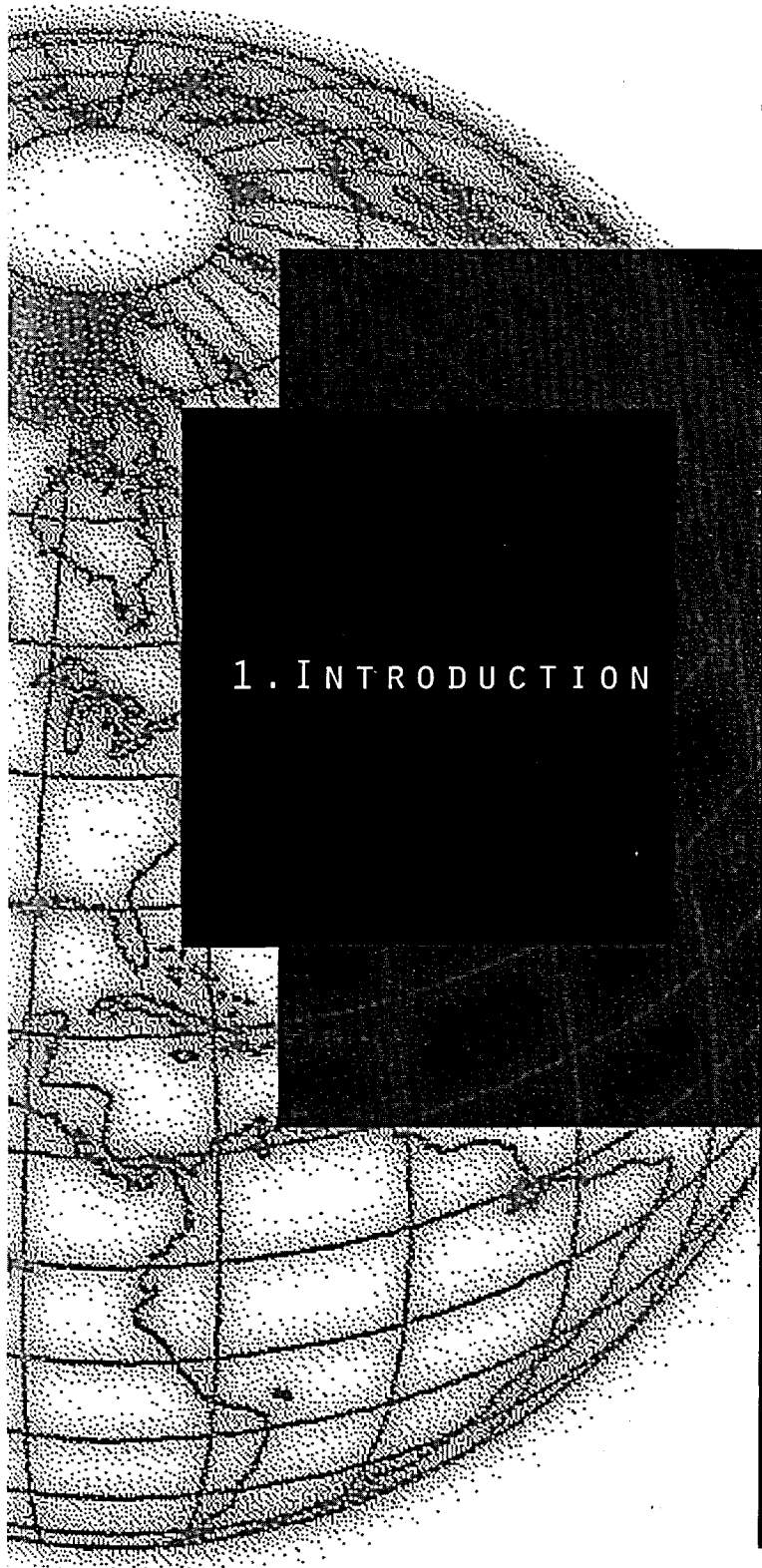
Our success in the global marketplace depends on our ability to maintain and expand the framework of international trade and investment rules. That is why we are determined to ensure that the rules we have negotiated in the WTO, the NAFTA and elsewhere are respected by all of our partners. That is also why we will assert Canada's rights under these agreements and pursue new ways to increase access for Canadian goods, services and investments in key markets around the world.

Enhancing market access is a vital element of the government's efforts — as part of our *Jobs Strategy* — to increase global opportunities for Canadian exporters and investors, particularly small and medium-sized enterprises. On March 19, 1997, I presented to Parliament my report on the achievements of the government's International Business Development activities; and in April, I will release a paper on Canada's trade policy agenda that underpins our market access efforts on behalf of Canadian traders and investors.

By working tirelessly to reduce barriers to foreign markets and to promote Canadian business abroad — and the benefits of investing in Canada, we will succeed in producing jobs and growth at home.



The Honourable Art Eggleton  
Minister for International Trade



## 1. INTRODUCTION

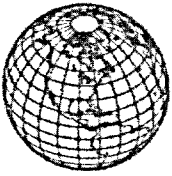
Now, more than ever, the well-being and prosperity of Canadians depends on a healthy international trade and investment climate. Over the past 10 years, Canada's total annual goods exports have almost doubled, reaching \$275 billion in 1996<sup>1</sup>. Indeed, exports of goods and services now account for approximately 40% of Canada's gross domestic product, the highest proportion among G-7 nations. One in three Canadian jobs depends on trade and every \$1 billion in new exports creates an estimated 6000 to 8000 net new jobs in Canada in the medium term<sup>2</sup>.

Expanding trade is a key element of the federal government's Jobs Strategy, which is promoting growth and job creation in Canada's economy. *Canada's International Business Strategy (CIBS)* — at the heart of the Team Canada approach to doing business in the global marketplace — is underpinned by a trade policy that seeks improved and more predictable access to the U.S. and other foreign markets, and promotes the continuous improvement and expanded coverage of international rules governing trade and investment.

Canada has been remarkably successful over the last decade in pursuing these goals. Negotiation of the Canada-U.S. Free Trade Agreement and the North American Free Trade Agreement (NAFTA), and the conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) resulting in the creation of the World Trade Organization (WTO), have provided a significantly enhanced rules-based framework to facilitate trade and investment. In addition, Canada is expanding trade liberalization and pursuing its market access priorities through complementary initiatives such as the Asia Pacific Economic Cooperation (APEC) forum, the Free Trade Area of the Americas (FTAA), the Canada-EU Action Plan, and the recent free trade agreements with Chile and Israel.

<sup>1</sup>1996 merchandise trade figures appearing throughout this document are preliminary figures (customs basis) released by Statistics Canada, February 19, 1997. Unless otherwise specified, all values are in Canadian dollars.

<sup>2</sup>This "export-job multiplier" is based on analysis carried out by the federal government in 1996.



As a nation highly dependent on trade, but one that accounts for a modest amount of worldwide trade flows, Canada must work vigorously to advance and defend its interests. This means not only strengthening the institutions and the rules that govern international trade, but also ensuring that other countries live up to the commitments they have made, so that Canadian firms will have access to their markets, producing growth and prosperity at home. Employing the various tools at its disposal, the government will act to ensure that Canada's exporters and investors benefit fully from international trade agreements.

### ***Trade (and Investment) is a Two-way Street***

Canada recognizes that trade and investment are two-way streets. The importance of imports, which amounted to \$233 billion in 1996, is often overlooked. Imports play a critical role in Canada's economy and are vital to the success of our overall trade picture. Without imports, Canada's economy would be less robust, our exports would be less successful, industries would be less competitive and consumer goods would be more expensive.

Similarly, investment, both inward and outward, plays a vital role in ensuring Canadian prosperity in a world where total annual investment flows have exploded from US\$60 billion to US\$300 billion over the past decade. Inward investment brings with it economic activity, and hence jobs (a recent Industry Canada study suggests that a \$1 billion increase in foreign direct investment in Canada creates about 45 000 new jobs); and successful investment abroad brings profits home, creating more wealth and economic activity in Canada.

Given the importance of maintaining healthy two-way trade and investment flows, Canada and a range of its key partners around the world have forged close relationships where economic issues of mutual interest are discussed. Through these dialogues, variously sustained at the level of leaders, ministers and officials, Canada can often resolve access issues without having to resort to the formal dispute settlement mechanisms available in the WTO and NAFTA.

### ***About this Document***

This document outlines Canada's priorities for improving access to key markets through multilateral, regional and bilateral initiatives over the next year. Its geographic scope includes the United States, important regional initiatives in the Asia Pacific, Europe and Latin America, and several other key markets. Information in the report has been drawn from the Department of Foreign Affairs and International Trade (DFAIT), other federal government departments, provincial governments, Canada's offices abroad, and the private sector.

The report describes Canada's efforts to improve market access for trade in goods and services; and, recognizing the importance of rapidly increasing global investment flows, it also outlines Canada's objectives for developing international rules governing investment. For individual markets, this document presents a brief overview of the trade relationship and market access conditions, along with examples of specific tariff and non-tariff barriers that the Canadian government is seeking to reduce for the benefit of this country's exporters and investors. Together, the markets covered in this report accounted for over 95% of Canadian exports in 1996.

In illustrating Canada's international market access priorities for the next year, this document is not intended as an exhaustive catalogue of government activities to improve market access, nor as a comprehensive inventory of foreign barriers to trade. This document succeeds the *Register of U.S. Barriers to Trade*, prepared by DFAIT annually since 1993. While recognizing the huge importance of the U.S. market, the current approach reflects Canada's broader interests and the importance of work in such fora as the WTO to strengthen the disciplines governing global trade and investment flows.

### Outline

*Canada's International Market Access Priorities* is organized as follows:

- **World Trade Organization:** Outlines Canada's priority initiatives for strengthening rules and improving access through the WTO, the organization that forms the cornerstone of the world trading system. Accession to the WTO of key partners such as China, Chinese Taipei (Taiwan), Russia, Saudi Arabia and Ukraine will contribute significantly to improved opportunities in these markets for Canadian exporters and investors.
- **North American Free Trade Agreement:** Outlines Canada's efforts to secure enhanced market access through strengthening NAFTA institutions and rules and through bilateral arrangements with the United States and Mexico.
- **Other Major Markets:** Presents Canada's market access priorities in the European Union, Japan, Korea, Hong Kong and India.
- **New Free Trade Agreements:** Describes opportunities created by Canada's newest free trade agreements with Chile and Israel.
- **Multilateral Agreement on Investment Negotiations:** Presents Canada's objectives in these negotiations, which are taking place under the aegis of the Organization for Economic Co-operation and Development (OECD).
- **Regional Initiatives:** Outlines Canada's priorities for enhancing trade and investment through the Asia Pacific Economic Cooperation (APEC) forum and the nascent Free Trade Area of the Americas (FTAA) discussions.

### *We Want to Hear from Canadian Exporters and Investors*

The federal government consults industry on market access issues through the existing International Trade Advisory Committee (ITAC) and Sectoral Advisory Groups on International Trade (SAGITs). To complement these mechanisms, we welcome direct input from Canadian exporters and investors describing barriers they have encountered in foreign markets. Individuals, companies and organizations are encouraged to contact DFAIT with specific information on obstacles. Communications, which will be treated in strict confidence, may be sent to:

"Foreign Trade and Investment Barriers Alert"  
Department of Foreign Affairs and International Trade  
Fax: (613) 992-6002  
e-mail: eat.extott@extott14.x400.gc.ca



## 2. WORLD TRADE ORGANIZATION

The World Trade Organization is key to the smooth functioning of the international trading system. Established January 1, 1995, to succeed the General Agreement on Tariffs and Trade (GATT), the WTO oversees the administration and functioning of multilateral trade agreements and helps maintain the rules governing world trade. It reduces the ability of the bigger and more powerful economies to operate outside the rules that have been negotiated by all countries. As well, the WTO dispute settlement process ensures timely settlement through consultation, establishment of panels, appellate body review, and adoption of panel reports.

For Canada, a nation heavily dependent on trade, effective trade rules are vital to ensure stable economic growth. Canada is therefore active across the entire range of activities in the WTO to improve market access for Canadian firms.

### 2.1 Improving Access for Trade in Goods

#### *Information Technology Agreement*

By late 1996, Canada and a number of other countries, representing over 90% of the \$500 billion a year global trade in information technology products, have endorsed a Ministerial Declaration on Trade in Information Technology Products which was agreed to at the December 1996 WTO Ministerial Conference in Singapore. The annex to this Declaration, known as the Information Technology Agreement (ITA), calls for the staged elimination, between 1997 and 2000, of most-favoured-nation tariffs on a broad range of information technology products. The ITA product coverage includes computers, telecommunications equipment, semi-conductors and certain other electronic equipment. Potential participants in the ITA include many of Canada's key trading partners, e.g., the United States, the European Union, Japan, Korea, Singapore, Chinese Taipei, Hong Kong, Switzerland, Australia, Malaysia, Thailand and India.

The ITA will stimulate trade in information technology products and boost Canadian exports in this sector, which amounted to \$16 billion in 1995. This agreement is expected to lead to improved market access, lower prices on inputs for Canadian producers, and growing markets. The Canadian information technology sector is particularly strong



and internationally competitive, and will benefit from improved access to key markets.

#### *Further Tariff Liberalization*

Canada will continue to press for WTO members to accelerate the liberalization of tariffs beyond levels agreed in the Uruguay Round, in several sectors of importance to Canadian exporters. In this regard, Canadian priorities include the acceleration of tariff reductions within the existing agreement for the reciprocal elimination of tariffs to zero (zero-for-zero) on paper/paper products and the establishment of new zero-for-zero tariff elimination agreements in oilseeds/oilseed products, wood/wood products and non-ferrous metals.

#### *Agriculture*

Canada's objective is to enhance access to world markets for Canadian agri-food products. Through the WTO Committee on Agriculture, Canada seeks to ensure that access and other commitments negotiated in the Uruguay Round are fully implemented. During 1997, the committee will go beyond monitoring the implementation of access commitments to review the domestic support and export subsidy notifications submitted by members. WTO members will also start to analyze and exchange information as a basis for future negotiations starting in 1999 to continue the process of agricultural trade reform.

#### *Technical Barriers to Trade (TBT)*

The WTO *Agreement on Technical Barriers to Trade* defines the international rights and obligations of members with respect to the development and application of measures that affect trade. Such measures include mandatory technical regulations and voluntary standards and conformity assessment procedures that determine whether a product meets the requirements of a particular regulation or standard.

Canada will participate in the upcoming triennial review of the Agreement, which should focus on practical issues of interest to Canadian exporters such as the examination of conformity assessment and equivalency issues, with the aim of facilitating access to markets and lowering costs to producers and exporters.

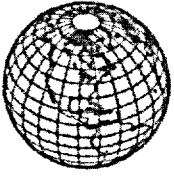
#### *Sanitary and Phytosanitary (SPS) Measures*

The WTO *Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures* imposes disciplines on the development, adoption and enforcement of sanitary and phytosanitary measures. These disciplines are designed to prevent the misuse of SPS measures as disguised barriers to trade. The WTO Committee on Sanitary and Phytosanitary Measures facilitates the enhancement of food safety and sanitary conditions internationally, promotes the harmonization and equivalence of SPS measures, and facilitates technical cooperation and consultations. The Agreement provides that the Committee shall review the operation and implementation of the Agreement three years after entry into force, i.e., in 1998.

#### *Rules of Origin*

The WTO *Agreement on Rules of Origin* has established a work program to develop a common set of non-preferential rules of origin that would have general application in determining the origin of traded goods. Canada's goal is to achieve harmonized, non-preferential rules of origin that provide greater certainty for the trading community, are trade neutral, and reflect the global nature of production and sourcing of goods and materials. Canada seeks to ensure that the three-year work program on rules of origin, as laid out in the WTO *Agreement on Rules of Origin*, is completed in a timely manner and results in rules that meet the WTO objectives of transparency, predictability and objectivity.

Canada also participates in the Technical Committee on Rules of Origin, which operates under the auspices of the World Customs Organization and is required to complete its technical work on developing proposals for harmonized rules of origin by July 1998.



## 2.2 Improving Access for Trade in Services

The General Agreement on Trade in Services (GATS) represents the first set of multilaterally agreed and legally enforceable disciplines to cover international trade in services. It is one of the most significant achievements of the Uruguay Round, since trade in services now represents some 20% of world trade and is increasing faster than trade in goods. Canada's exports of services were estimated at \$38.9 billion in 1996 while its imports for the same period were valued at \$48.3 billion. Sectoral negotiations in financial services and further work on professional services will take place in 1997. Negotiations on maritime transport services that were suspended in June 1996 will resume in the context of the next round of comprehensive services negotiations to begin no later than 2000. In 1997, Canada will begin preparations for this important round of negotiations, with the objective of achieving progressively higher levels of liberalization in services.

### *Financial Services*

As a significant exporter of financial services, Canada has participated in negotiations on financial services issues held under the Uruguay Round. In 1995, an interim agreement was reached, representing an important step forward in establishing a rules-based trading system for financial services. Negotiations are set to resume in the spring of 1997, with the aim of achieving a broad, most-favoured-nation agreement. Canada's overall objective in the upcoming negotiations will be to seek a permanent agreement that will have the widest possible participation and highest level of commitments for liberalised financial markets from our key trading partners including, in particular, those countries of the Asia Pacific area.

### *Basic Telecommunications*

The telecommunications sector is vital to the Canadian economy. It is a key input for other economic activities, and a major determinant of this country's international competitiveness. This sector is also an important source of advanced technology capabilities and of high quality jobs that contribute to Canada's economic growth. Telecommunication services contribute directly some \$18 billion (or 3.3% of gross national product) to the Canadian economy and 145 000 jobs.

The GATS negotiations on basic telecommunications services concluded successfully on February 15, 1997. Sixty-nine governments — representing markets accounting for more than 90% of telecommunications revenue worldwide (\$880 billion per year) — made multilateral commitments. Canada achieved secure access to key markets in the United States and the European Union; improved opportunities to serve countries in Asia and Latin America; and the benefits of a transparent, multilateral, rules-based trading framework.

The telecommunications agreement does not cover the provision of cultural services. Canada specifically excluded broadcasting services, as well as Direct-to-Home (DTH) and Direct Broadcast Satellites (DBS) telecommunications services from its commitments.

### *Professional Services*

Canada's goal is to obtain greater and more secure market access for providers of professional services, in particular, for professions of key export interest. To this end, Canada, supported by industry, is playing an active role in the Working Party on Professional Services (WPPS) which is charged with developing sector disciplines to ensure that domestic regulations, technical standards or licensing requirements do not act as disguised barriers to trade. As a first step in a broader liberalization exercise, the WPPS is aiming to complete its work program on accountancy services by the end of 1997 and to expand its work program to include additional professions.

### *Maritime Transport Services*

Canada is a major user of international maritime transport services. While only 17% of the country's international trade is carried by sea, this proportion rises to more than half (55%) for Canada's non-U.S. international trade. As a supporter of increased liberalization of trade in services, Canada believes strongly that there are valuable benefits to be gained from increased market access and national treatment commitments in this sector. Canada participated in the post-Uruguay Round negotiations on maritime transport services to secure commitments in the areas of international shipping, auxiliary services (e.g., cargo handling, freight forwarding) and access to and use of port facilities. Partly as a result of a U.S. decision not to undertake commitments, the negotiations on maritime transport services were suspended at the

end of June 1996. WTO members have agreed to resume negotiations on maritime transport services with the next round of comprehensive services negotiations to begin no later than January 1, 2000. In the meantime, members undertook not to introduce any new restrictions in this area.

### 2.3 Trade Remedies

Canada seeks to bring greater discipline, transparency and clarity to the use of trade remedies to provide Canadian exporters with a more stable and predictable climate in which to do business. The Uruguay Round yielded improved rules governing subsidies. For example, there is now an agreed definition of what constitutes a subsidy and the conditions under which members can apply countervailing measures. However, the achievements in the new *Anti-Dumping Agreement* were more modest; representing technical and procedural improvements. In this regard, Canada will continue to push for improved disciplines aimed at limiting the arbitrary use of anti-dumping and countervailing measures. In addition, Canada will continue to ensure that improved disciplines on the use of trade remedies are not undermined by any renewed protectionist pressures.

Canada will continue to contribute to work in the WTO Committees on Subsidies and Countervailing Measures, Anti-dumping Practices, and Safeguards, to ensure that all members implement their WTO obligations fully and consistently. A key part of this work is a detailed notification exercise, whereby members present for scrutiny, among other things, their national legislation in the area of trade remedies.

### 2.4 Government Procurement

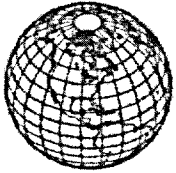
With annual global expenditures in the hundreds of billions of dollars, government procurement represents a massive potential area for international trade. However, because procurement is often seen as one of the last bastions of protection for domestic industry, countries have been reluctant to agree to disciplines at a multilateral level. Canada, along with 25 other countries, is party to the *WTO Agreement on Government Procurement* (AGP), which came into force on January 1, 1996, and provides tangible, though somewhat limited, benefits to Canadian exporters.

To increase business opportunities for Canadian exporters, Canada supports a range of activities in the WTO to broaden and strengthen government procurement disciplines. An early review of the plurilateral AGP will be undertaken in 1997. Canada wishes to see this review focus on increased security of market access, elimination of discriminatory measures and practices, expansion of coverage, and simplification and improvement of the procedural obligations of the Agreement. In addition, in December 1996, in Singapore, WTO trade ministers agreed to establish a working group to study transparency in procurement practices, taking into account national practices, and to develop elements for inclusion in an appropriate agreement. This represents an important first step in exploring options for introducing multilateral disciplines in government procurement for all WTO members. In addition, discussions are continuing in the context of the GATS to determine the scope for including government procurement disciplines under this Agreement.

### 2.5 Investment

The Canadian government believes the time is right to begin looking within the WTO at issues related to international investment that go beyond the existing *WTO Agreement on Trade-Related Investment Measures*. This should be done in the context of the further development of a stable multilateral trading system, where trade and comprehensive investment rules are closely linked.

Foreign investment in Canada and Canadian investment abroad have grown exponentially in the last decade, reflecting the participation of Canadian business in a rapidly integrating world economy. Inward investment brings with it economic activity, and hence jobs; and successful investment abroad brings profits home, creating more wealth and economic activity in Canada. Canadian firms are investing in a broad range of countries at all levels of development, most of which are members of the WTO. Canada has therefore supported and was a leading promoter in establishing a work program on multilateral investment issues at the WTO Singapore Ministerial Conference in December 1996.



In the coming year, Canada and other WTO members will develop and work to set out an extensive, substantive work program on investment. Canada expects initial work will include examinations of the relationship between trade and investment; the effects of investment on the economic structure of both home and host economies, as well as the effects of investment on economic development; and the international competition for investment, including the changing patterns and determinants of investment flows.

## 2.6 Trade and Competition Policy

Canada is a strong proponent of more international work on trade and competition in a number of bilateral, regional and multilateral fora. Consequently, Canada supported the initiative at the WTO Ministerial Conference in Singapore to establish a working group to study issues raised by members relating to the interaction between trade and competition policy, including anti-competitive practices, with a view to identifying any areas that may merit further consideration in the WTO framework. Through this work, Canada seeks to promote appropriate disciplines to ensure that public and private anti-competitive practices are not permitted to replace governmentally-imposed trade barriers.

## 2.7 Dispute Settlement

Canada benefits from the strengthened WTO dispute settlement mechanism resulting from the Uruguay Round. Major improvements to the old GATT system of dispute settlement ensure that complaints about unfair trade practices proceed toward resolution according to a clearly established schedule. The WTO's Dispute Settlement Body can establish panels to resolve disputes, adopt panel reports and appeals, oversee the implementation of rulings and recommendations, and authorize the suspension of trade concessions and other obligations. A standing appellate body hears appeals from panel cases to ensure consistency in all rulings. As well, it is no longer possible for a single member to block a decision that is unfavourable to it. This system is based on the rule of law and gives small and medium-sized countries a better chance of achieving a satisfactory outcome against larger, more powerful countries by providing protection against unrestrained use of economic leverage.

Canada has made use of the dispute settlement procedures on behalf of Canadian exporters facing barriers that are inconsistent with another member's WTO obligations. As of March 1997, Canada is the complainant in a case before a WTO panel concerning the EU's ban on imports of meat derived from livestock treated with growth-promoting hormones, and Canada has requested a panel on Australia's import ban on uncooked salmon. Canada is also the complainant in a suspended case concerning EU regulations on cereals. Canada has also reserved third-party rights with respect to five other cases for which panels have been established or requested (including the U.S. Helms-Burton Act).

In addition, Canada is the complainant in consultations on Brazil's aircraft export financing program (PROEX), and Canada has joined in consultations requested by other members concerning Japanese pork import measures, Brazil's automotive investment measures and the EU's customs classification of computer equipment. These consultations may lead to the establishment of panels.

In July 1996, a WTO panel established to examine complaints brought by Canada, the European Union and the United States ruled that Japan's liquor tax system significantly discriminated against imports in a manner inconsistent with Japan's WTO obligations. Consequently, the panel recommended that Japan bring its measures into conformity with the established trade rules. Japan is finalizing the precise terms under which its tax regime will be amended, and the result will be significantly improved access for Canadian-produced whisky to Japan's \$25 billion a year liquor market.

Canada has benefitted from the improved dispute settlement mechanism in two other cases it launched since the creation of the WTO. Mutually agreeable solutions were found with Korea regarding that country's measures affecting the import and sale of bottled water, and with the European Union concerning French regulations on scallops.

## 2.8 Accessions to the World Trade Organization

The WTO currently has 130 members and 29 countries or customs territories have applied to join. Canada is a strong supporter of the expansion of WTO membership and participates in the accession negotiations for two reasons.

The first objective is to achieve more transparent, rules-based trade regimes in more markets. Such reforms produce less discretionary and therefore more predictable marketplaces for Canadian suppliers. Canada will continue to ensure that acceding economies implement trade regimes that conform with the WTO framework and contribute to overall trade liberalization and the strengthening of the WTO.

Second, Canada seeks to secure improved access for Canadian exports of goods and services to these markets. In parallel with its efforts to improve the underlying trade regimes, Canada focusses on the elimination or reduction of tariff rates and non-tariff barriers affecting goods of current and future export interest to it. Similarly, it strives to improve access in sectors targeted by Canadian services firms by seeking binding commitments in the four "modes" of services trade that are covered by the GATS. Accession negotiations offer a unique opportunity to resolve Canadian access problems in these markets.

In 1997, Canada will remain involved in accession negotiations with a number of significant markets for Canada including China, Chinese Taipei (Taiwan), Russia, Saudi Arabia, and Ukraine. As well, Canada will participate in the accession negotiations that are expected to begin with additional countries, such as Algeria and Vietnam. These seven markets currently account for Canadian merchandise exports of close to \$6.5 billion annually. Achieving more open, WTO-consistent trade regimes in these markets therefore ranks as a priority among Canadian market access objectives.

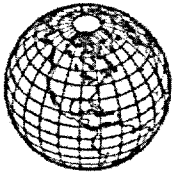
### *China*

China is one of Canada's top five trading partners and Canada's largest partner currently outside the disciplines of the WTO. Despite the tremendous economic growth since the late 1970s, China's economic and trading regime is still in transition to a market-based system that will require greater

regulatory transparency and a predictable investment and trade environment. China continues to limit trading rights to a restricted number of companies, albeit a larger number than in the past. Tariffs remain high and are sometimes applied arbitrarily across China's ports of entry. Canadian goods exporters are required to pay a value added tax that does not appear to apply to comparable domestic products.

Since the accession negotiations began, Canada has worked to lower the barriers for Canadian firms into the Chinese market. For hundreds of goods Canada has requested that China lower and "bind" its tariffs on each product. China has made substantial progress in meeting Canada's request, but there need to be improved tariff offers. In addition, China has proposed a tariff rate quota (TRQ) regime on key grains and oilseeds. Canada cannot judge whether it will have achieved meaningful market access until China provides details about the TRQ regime. Among remaining priorities are whisky, wheat, malting barley, canola seed, canola oil, frozen salmon, polypropylene, polyethylene, styrene, ethylene glycol, potash, sulphur, road graders, newsprint and other paper products, strontium, aluminum forms, nuclear reactors, and cellular telephone systems. Canada is also making efforts to resolve several sanitary and phytosanitary measures affecting imports of meat and seed potatoes. With respect to trade in services, although progress has been made, Canada continues to seek improvement in a number of sectors, including enhanced telecommunications, financial and professional services.

Multilaterally, in the WTO's working party on China's accession, Canada is working with other members to negotiate with China a timetable within which China must eliminate WTO-inconsistent non-tariff measures. In addition, Canada wants China to commit to the elimination, upon accession, of WTO-inconsistent policies and practices that discriminate against foreign companies. Canada is optimistic that China understands the internal reforms needed to meet WTO obligations. Canada anticipates that within a short period of time from China's accession, Canadian firms will be able to sell their goods directly to any Chinese firm rather than through the limited number of firms possessing "trading rights" with which they must presently deal.



A fundamental goal for Canada is to ensure that China enters the WTO on terms that reinforce the integrity of the multilateral trading system. Once China is in the WTO, Canada believes Canadian companies will benefit from a more predictable trading and investment environment in China. Canada does not underestimate the scope of the task faced by China's economic reformers. Together with its partners in this multilateral negotiation, Canada has provided technical assistance to China and continues to stand ready to provide further assistance to ensure the smooth entry of China into the multilateral trading system.

### *Chinese Taipei (Taiwan)*

Chinese Taipei was Canada's 10th largest market for goods in 1996, with exports amounting to \$1.4 billion. Canadian exports of both goods and services have expanded as the Chinese Taipei economy has flourished and trade and economic reform has proceeded. However, Canadian firms still encounter a network of barriers, reflecting the fact that Chinese Taipei's economy and trade regime have developed outside the disciplines of the multilateral trade framework, in an environment that engendered protectionism and discriminatory access conditions. These barriers are the focus of Canada's ongoing bilateral market access negotiations in the context of Chinese Taipei's accession.

With respect to market access for goods, Canada has pursued the dismantling or lowering of tariffs as well as other barriers, and the "binding" of the results, on over 1000 items. Resource and industrial products account for two thirds of these; the balance are agricultural, fisheries and food items. Canada's focus is now on the 50 unresolved products, which are in the agriculture and fisheries sectors. Canada will also secure Chinese Taipei's commitments to provide more equitable access for other agricultural priorities, such as oilseeds products. As well, Canada looks to a resolution of several sanitary and phytosanitary-related market access issues, for example, measures affecting imports of seed potatoes. The tariff-focussed negotiations on resource and industrial products have progressed well. Canada's goal includes securing tariff commitments for products such as chemicals, pharmaceutical, paper, and medical devices in line with the zero-for-zero or harmonization arrangements adopted by Canada and other industrialized countries in the

Uruguay Round. Canada will also secure tariff commitments for priority mineral and fertilizer products, as well as reductions in the differential between primary and processed non-ferrous metal and wood products. With respect to the liberalization of Chinese Taipei's import market for automobiles, Canada will ensure that its access remains favourable.

Regarding services, the resolution of outstanding issues related to Canadian provision of legal services and to the continued liberalization of the financial sector make up Canada's priority for the coming year. Canada will also secure Chinese Taipei's commitments in areas such as enhanced telecommunications and environmental services where progress has already been achieved in the negotiations.

As part of its WTO accession, Chinese Taipei has applied to join the *WTO Agreement on Government Procurement (AGP)* and bilateral negotiations related to this application are in progress. Canada expects Chinese Taipei to be in a position to accede to the AGP once its negotiations for WTO accession are concluded. In parallel with these talks, a focus of Canadian trade development efforts in this market has been Chinese Taipei's infrastructure development program.

### *Russia*

Russia represents a large potential market for Canadian exporters. In 1996, Canada's merchandise exports reached \$319 million, a 53% increase over 1995. Canadian services exports are also significant.

Russia applied to join the WTO in December 1994 and several meetings of the working party on its accession have been held.

As a large, former command economy in transition, Russia requires a long and complex reform process to bring its trade and economic system into conformity with the disciplines of the WTO agreements. Some relevant legislation is still to be completed. In 1997, the working party will continue to study issues such as the activities of state enterprises, including trade and purchasing; subsidies; taxation; licensing; quotas; tariffs and the customs system; barter and countertrade; government procurement; technical barriers (standards); intellectual property; trade in services; sectoral policies in both agriculture and industry; subfederal powers affecting trade; regional trade arrangements; and, in general: transparency, consistency and predictability.

In the bilateral market access negotiations expected to begin in 1997, Canada will request of Russia the lowering of tariffs and other barriers on goods and services of present and future importance to Canadian exporters. Canada's export interests in the Russian market include oil and gas equipment, agri-food products, vehicles, and telecommunications equipment.

### *Saudi Arabia*

Multilateral negotiations regarding Saudi Arabia's accession to the WTO commenced in May 1996. An underlying objective for Canada in both the multilateral and bilateral negotiations with Saudi Arabia will be to secure reform and market access commitments that are commensurate with Saudi Arabia's role in global trade and its importance to Canada as an export market.

Canada expects to commence bilateral market access negotiations with Saudi Arabia during the coming year, once Saudi Arabia has provided further data on its import regime, including non-tariff measures. Over half of Canada's approximately \$500 million in annual merchandise exports to this market consists of vehicles and parts; other substantial exports include barley, wood and paper products, copper, plastics, aircraft and parts, machinery, electrical equipment and rolling stock. Canada will seek Saudi commitments in products such as these, as well as in services areas, of prime interest to Canadian firms in this market.

In 1997, the working party will seek greater clarity regarding the Saudi trade regime and will address specific issues such as transparency, government procurement, and agricultural sector policies.

### *Ukraine*

Ukraine initiated the process of accession to the WTO as part of its general program of market orientation and integration into international organizations.

In 1997, the working party will continue to focus on overall transparency, the still-significant role of the state, and on issues relating to specific areas such as: the trade activities of state enterprises, including barter trade; government procurement; subsidies, price policies, and taxes; the policy to replace imports of "non-essential" goods; intellectual property protection; the customs system, including tariff rates, rules of origin and valuation; trade remedies (subsidies/ countervail, anti-dumping, and safeguards); standards and other technical barriers to trade; agricultural sector policies; policies affecting services trade (e.g., banking, insurance, transportation); and Ukraine's trade agreements with other states of the former Soviet Union.

In addition, as part of the accession process, Canada expects to commence bilateral market access negotiations on both goods and services with Ukraine. Ukraine's market is of strong interest to Canadian exporters. Current annual exports, in the \$35-\$45 million range, include oil and gas equipment, agri-food products and equipment, construction materials and high technology products. Canada will seek commitments in products such as these, as well as in priority services areas.



### 3. NORTH AMERICAN FREE TRADE AGREEMENT

The North American Free Trade Agreement entered into force for Canada, the United States and Mexico on January 1, 1994. Designed to foster increased trade and investment between the NAFTA partners, the Agreement contains an ambitious schedule for tariff elimination and reduction of non-tariff barriers, as well as comprehensive provisions on the conduct of business in the free trade area. These include disciplines on the regulation of investment, government procurement, services, intellectual property, competition and the temporary entry of business persons. On tariff reduction, the NAFTA does not affect the tariff phase-out of the Canada-U.S. Free Trade Agreement (FTA), under which tariffs will be phased out by 1998; and for trade between Canada and Mexico, tariffs will be virtually eliminated by January 1, 2003.

The NAFTA has improved Canadian access to U.S. and Mexican markets and enhanced the attractiveness of the Canadian economy to foreign investors. Since the NAFTA's entry into force, Canadian exports to these markets have shown impressive growth, and foreign direct investment in Canada from all sources has increased markedly.

More important, the NAFTA and its predecessor, the FTA, have helped create a more open economy, which has stimulated significant increases in productivity and specialization within industries in areas such as electrical and electronic products, chemicals, tools and beverages. The result has been improved competitiveness of Canadian exports of both goods and services.

The NAFTA envisages further work to help fully achieve the objective of a free trade area. Over 30 working groups and committees were established under the Agreement to further facilitate trade and investment, and to ensure effective implementation and administration of the NAFTA's rules. Canada is pursuing work on, in particular, rules of origin, customs, agricultural trade and subsidies, standards, government procurement, temporary entry of business people, services, and trade remedies. These working groups and committees report to the NAFTA Commission, comprising the trade ministers of the three NAFTA partners. The NAFTA working groups and committees provide a forum for exploring ways of further liberalizing trade between members, for example, accelerated tariff reductions on specific



goods. A schedule of items targeted for accelerated tariff reduction is expected to be confirmed by NAFTA parties later this year. The NAFTA working groups and committees also provide a transparent mechanism for discussion of issues and possible avoidance of dispute settlement procedures through early dialogue on contentious points.

The vast majority of trade in North America now takes place in accordance with the clear and well-established rules of the NAFTA and the WTO. Nonetheless, disputes are bound to emerge in such a large trading area. In such cases, the NAFTA directs the governments concerned to seek to resolve their differences through NAFTA committees and working groups or through other consultations. If no mutually acceptable solution is found, the NAFTA provides for expeditious and effective dispute settlement procedures.

Dispute settlement procedures in the case of anti-dumping and countervailing are provided for under the NAFTA Chapter Nineteen, which provides a unique system of binational panel review in place of domestic judicial review for domestic decisions regarding anti-dumping and countervailing duty matters. This binational panel system, along with the WTO's dispute settlement option, ensures that trade remedy measures are applied in a manner which is consistent with domestic law and with international trade agreement obligations.

Chapter Twenty includes provisions relating to the avoidance or settlement of all disputes regarding the interpretation or application of the NAFTA, except for matters covered under Chapter Nineteen. There are special rules for matters under Chapter Eleven (Investment) and Fourteen (Financial Services). Canada has successfully defended its dairy and poultry interests through a Chapter Twenty panel and is prepared to use Chapter Twenty as may be required to defend its interests vis-à-vis the United States in such matters as the U.S. re-export program for sugar-containing products and the U.S.-Russia uranium anti-dumping suspension agreement.

For investment matters, the NAFTA sets out investor/state dispute settlement procedures. An aggrieved investor can take a host government to dispute, using procedures common to Canadian foreign investment protection agreements and the World Bank's Centre for the Settlement of Investment Disputes.

The NAFTA also requires domestic agencies to respect the principles of due process, fairness and transparency. For example, the NAFTA requires each country to institute or maintain a system for bid challenge review of procurement decisions. The reviewing authority for Canadian government procurement is the Canadian International Trade Tribunal.

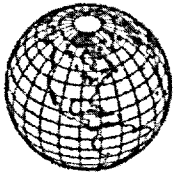
### 3.1 United States

#### *Overview*

Canada and the United States are each other's largest trading partners. In 1996, Canada exported \$224 billion of goods to the United States and imported \$157 billion in goods from the United States, for a surplus of \$67 billion. Canada exported \$21.5 billion in services and imported \$30.5 billion in 1996, for a deficit of \$9 billion. Canada-United States trade in goods and services supports over 2 million Canadian jobs, generating 28% of Canada's gross domestic product. Fully 80% of Canadian merchandise exports are destined for the United States. Since the implementation of the Canada-U.S. Free Trade Agreement in 1989, two-way merchandise trade has doubled. Between 1992 and 1996, two-way merchandise trade increased by an average of 14.8% per year. This contrasts with an average annual increase of 8% over the same period for Canada's trade with the rest of the world.

U.S. direct investment in Canada has increased from approximately \$85 billion in 1990 to approximately \$113 billion in 1995. The FTA, and subsequently the NAFTA, have had other positive spin-offs. For example, the Open Skies Agreement signed in February 1995 has opened new opportunities for Canadian and American airlines.

*Canada's Action Plan for the United States* outlines the Department of Foreign Affairs and International Trade's (DFAIT) business development initiatives designed to double the number of Canadian exporters by the year 2000, by introducing 2000 new exporters to the U.S. market over the next 12 to 18 months. Developed in partnership with a wide range of domestic stakeholders, the *Plan* will be implemented through initiatives such as the New Exporters to Border States program, as well as corporate advocacy and outreach programs to help Canadian business make the most of the excellent export opportunities



in the U.S. market. The *Action Plan* identifies 23 priority sectors, including advanced manufacturing technologies and services; aerospace, defense and security; semi-processed and processed food and beverages; and cultural industries.

These business development activities benefit from agreements that have reduced barriers to trade and investment. In addition to the NAFTA, Canada and the United States are partners in the WTO, which has brought strengthened and improved rules and disciplines to many areas of international trade. The improved WTO dispute settlement provisions, together with the NAFTA, provide Canada with additional means to address bilateral trade irritants. Although the vast majority of Canada's trade with the United States proceeds problem-free, opportunities remain for increased and improved trade through the removal or modification of barriers in the United States.

### ***Canada's Market Access Priorities***

Over the coming year, Canada will:

- protect and enhance access to the U.S. market by exercising its rights under existing trade agreements and resisting U.S. measures that constrain Canada's access to its most important trading partner;
- continue to closely monitor, and address as appropriate to protect Canadian interests, key legislative and other developments that impact on the trading environment;
- continue to defend and to advocate the consistency of Canadian cultural policies with Canada's international trade obligations, and to protect the growing importance of the American market to Canada's cultural community;
- work closely with the United States to introduce a number of concrete steps to facilitate cross-border commerce; and
- pursue a range of other initiatives to advance Canadian market access objectives in other areas, such as trade remedies, services, and government procurement.

The remainder of this chapter provides additional detail on key U.S. market access issues for Canada

over the next year. It should not be regarded as an exhaustive inventory of obstacles faced by Canadian firms in the United States, nor as an exclusive list of issues that the Canadian government will pursue.

### ***Exercising Canada's Rights Under Trade Agreements***

***Extraterritoriality — The Helms-Burton Act***  
The Helms-Burton Act is designed to chill third country investment in Cuba by exposing foreign nationals who "traffic" in expropriated Cuban property to claims in U.S. courts against that property. It also provides for the denial of entry to the United States of foreign individuals or companies who "traffic" in that property. The legislation violates U.S. obligations under international agreements, notably the NAFTA and the WTO, and is inconsistent with generally recognized principles of international law.

President Clinton suspended the right to sue under Title III of the Act on July 16, 1996 and renewed the suspension for an additional period of six months on January 3, 1997. The President's decision to renew the suspension, however, did nothing to address the long term problems of the legislation. The Act still imposes the U.S. embargo of Cuba extraterritorially on other countries. In addition, liability for Canadian companies has been accruing under Title III of the Act since November 1, 1996, and a number of companies, and their personnel, have received letters under Title IV advising them they will be barred entry to the United States.

Accordingly, Canada has taken both domestic and multilateral measures to oppose the Helms-Burton Act. Amendments to the Foreign Extraterritorial Measures Act entered into force January 1, 1997. The amendments will block any attempt to enforce Helms-Burton judgments in Canadian courts, and allow Canadian companies to sue in Canadian courts to recover any amounts, including costs, awarded against them.

Canada is also participating as a third party in the European Union's challenge of Helms-Burton at the WTO. Panellists were appointed in that proceeding on February 20, 1997, and a timetable has been set. Canada expects to file its third party brief in mid-May 1997. The EU, supported by Canada, will argue, *inter alia*, that the U.S. embargo of Cuba,

including Helms-Burton, is inconsistent with certain provisions of the General Agreement on Tariffs and Trade and the General Agreement on Trade in Services. The case should be concluded within six to eight months, provided the United States does not attempt to frustrate the process by using the national security exception.

Canada intends to continue to oppose the Helms-Burton Act in other international fora as well, including the Organization of American States (OAS), the Organization for Economic Co-operation and Development (OECD) and in the Multilateral Agreement on Investment (MAI) negotiations.

#### *Sugar and Sugar-Containing Products*

When the United States implemented its WTO commitments in 1995, it split the formerly combined raw and refined sugar quota and established a tariff rate quota of 22 000 tonnes on refined sugar from all sources, including Canada. Canadian exports of refined sugar to the United States had not been subject to any restriction from 1990-94. As a result of this change, Canada's exports of refined sugar to the United States have fallen from an average of 35 000 tonnes in the early 1990s to 3000-5000 tonnes in 1996.

The United States also maintains effective limitations on the import of a wide range of sugar-containing products through tariff rate quotas (TRQs). A number of previously unrestricted products, most prominently crystal drink mixes, were added to the list of products subject to the U.S. TRQs in the implementation of the U.S. WTO commitments in 1995. Together, these measures have led to a 50% reduction in Canadian market access for certain sugar-containing products to the United States. Canada continues to press the United States to increase access for sugar and sugar-containing products, however, a short term resolution is unlikely due to the results of the panel on the tariffication of dairy and poultry goods.

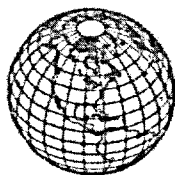
As well as maintaining import restrictions on sugar and certain sugar-containing products, the United States operates a price support program for sugar, which ensures that U.S. domestic prices remain at levels significantly above world market prices. In addition, the United States administers a re-export program that allows U.S. refiners to import world price sugar for re-export as refined sugar. This

program allows U.S. refiners cheaper world price sugar without compromising domestic prices. The NAFTA provides for the elimination of this re-export program for sugar-containing products as of 1996, but the United States has not yet terminated the program. Although Canada has indicated that a negotiated solution is preferred, Canada is proceeding with the NAFTA dispute settlement provisions.

#### *Softwood Lumber Agreement*

On April 2, 1996, Canada and the United States reached an agreement by which the United States made an unprecedented commitment not to launch any trade actions on softwood lumber exports from Canada for the next five years. In return, Canada has agreed that softwood lumber exports to the United States originating from British Columbia, Quebec, Ontario and Alberta that exceed 14.7 billion board feet a year will be subject to a US\$50 per thousand board feet border fee for the first 650 million board feet, and US\$100 per thousand board feet for greater quantities. No fee will be charged on shipments below 14.7 billion board feet, which is higher than the average annual level of exports of softwood lumber from those four provinces over the years 1992 to 1994. The export fee will not apply to exports from Manitoba, Saskatchewan or the Territories, whose exports will be unaffected by the agreement. Canada, in conjunction with the Maritime provinces and Newfoundland, has reached an understanding with the United States that maintains their traditional exemption.

The allocation system implemented by Canada distributes among companies both the fee-free export levels of 14.7 billion board feet, and the 650 million board feet carrying a fee of US\$50 per thousand board feet. In addition, the Agreement also provides for an increase in exports of 92 million board feet without fee for each calendar quarter when the average price exceeds US\$405 per thousand board feet. For each of the first three calendar quarters of the Agreement, Canada has benefitted from increases in exports without fee. The strong U.S. housing market has driven up lumber demand, which is reflected in high prices (US\$500 per thousand board feet, Great Lakes delivered, as of March 1, 1997, compared to US\$355 a year earlier.)



The Canadian government continues to consult closely with all Canadian interests to determine allocations for the 1997/98 quota year. In this regard, on February 10, 1997, the National Softwood Lumber Advisory Committee met to seek advice from the provinces and industry.

Canada will ensure effective implementation of the Agreement on Softwood Lumber, to maximize the volume of lumber exported under the Agreement.

### *Resisting U.S. Measures that Constrain Canadian Access*

#### *Wheat and Barley*

The U.S. Administration announced in September 1996 that it would continue its unilateral monitoring of U.S. imports of Canadian wheat and barley, and that it would seek consultations with Canada if imports were to rise above particular trigger points at specified periods during the year. During her confirmation hearings, United States Trade Representative-designate Charlene Barshefsky undertook to seek consultations with Canada on those imports. Canada considers that its exports to the United States continue to be fairly traded, and has no interest in participating in any arrangement that would limit Canadian exports to that country.

The Export Enhancement Program (EEP) was introduced in May 1985 and is authorized under the Federal Agricultural Improvement and Reform Act of 1996 ("Farm Bill"). The Agriculture Department may subsidize a range of U.S. agricultural exports (mainly grains and oilseeds) to targeted markets. Initially, the justification for EEP was the protection of market share from subsidized European Union commodities, but over time the targets expanded. This resulted in a severe reduction in overall world prices and lower returns to Canadian producers. In light of strong international prices, the U.S. government has not used EEP for grains since July 1995, but has come under pressure to use it again. Canada has stated to the United States that a decision to use the EEP would inflate U.S. market prices, making the U.S. market even more attractive for Canadian grains, thus exacerbating U.S. concerns about imports from Canada.

#### *Wool Suits*

U.S. men's wool apparel producers continue to press Congress and the Administration to obtain reductions in the levels of wool suits, sport coats and pants that enter the country at NAFTA rates of duty under the NAFTA Tariff Preference Level (TPL) for wool apparel. Last year, Canada succeeded in mounting opposition to legislation that would have imposed unilateral U.S. restrictions. The pressure from the United States is likely to continue during 1997 and Canada will continue to defend the access acquired for these products as agreed in the NAFTA.

#### *U.S.A. Section 332 Investigations*

Section 332 of the Tariff Act of 1930 provides general authority for the U.S. International Trade Commission (ITC), on request from the Administration or Congress, to conduct fact-finding investigations of the foreign trade practices of other countries and their effect on U.S. industry. While import action is not authorized under this section, such investigations can develop information that may be used in countervailing duty investigations. This is in addition to the burden sometimes placed on foreign industries and governments to supply information. When used, Section 332 can create uncertainty and possibly disrupt trade and investment decisions. Currently, Canadian interests are involved in Section 332 investigations of U.S. trade in cattle and beef, and potatoes and potato products. Canada will work closely with the U.S. International Trade Commission to ensure the most objective reports possible are produced with respect to these and any other Canadian products subject to future Section 332 investigations.

#### *Monitoring Developments Affecting Canadian Interests*

##### *Fast-Track Negotiating Authority*

Canada will continue to monitor carefully the Administration's progress in securing fast-track negotiating authority from a Congress ambivalent about trade liberalization. Fast-track is an Administration priority for this year, and prominent GOP leaders in both houses have indicated that some agreement should be reached, but no specific proposal is on the table. Canada recognizes that fast track authority will be an important tool to allow the

United States to move forward with negotiating Chile's possible accession to the NAFTA and to continue the trade liberalization discussions in the FTAA.

#### *President's Report on the Effects of the NAFTA*

The President is required to report to the U.S. Congress by July 1, 1997, on the effects of the NAFTA on the United States and its economy. How this report is received is likely to shape attitudes in Congress to a request from the Administration for fast-track authority to negotiate further free trade agreements. Failure to win fast-track authority would almost certainly preclude the start of negotiations on Chile's accession to the NAFTA. An unfavourable reaction also would affect the United States' ability to assert effective leadership of hemispheric and other trade liberalization initiatives.

#### *Constitutional Challenge to NAFTA*

##### *Chapter Nineteen*

On January 16, 1997, the American Coalition for Competitive Trade, a group of 21 non-profit citizen organizations, filed a challenge on the constitutionality of Chapter Nineteen of the NAFTA and the FTA. Chapter Nineteen provides for the establishment of binational panels to review and determine whether final determinations made in anti-dumping and countervailing duty investigations are consistent with domestic law. In its petition before the U.S. Court of Appeals for the District of Columbia, the Coalition alleges that, among other things, by passing legislation implementing the provisions of NAFTA and the FTA, the U.S. Administration acted unlawfully by ceding, abdicating or delegating its authority under the U.S. Constitution. The petition also alleges that the Administration violated constitutional provisions regarding the separation of powers of the courts and the Executive Branch and also its obligation to provide due process and equal protection under the law to U.S. plaintiffs.

There have been two previous constitutional challenges of the Chapter Nineteen panel system. One in the early 1990s was dismissed for lack of jurisdiction while the other was withdrawn in February 1995, after Canada agreed to enter into a bilateral consultation process on softwood lumber.

As with the earlier cases, this most recent challenge is a matter for the U.S. Administration to defend

before a United States court. It is expected that the Administration, as it has in the past, will defend vigorously the constitutionality of its own laws. Canada is prepared to co-operate with the Administration to defend what Canada considers to be an essential element of the NAFTA. All necessary steps will be taken to safeguard Canadian interests.

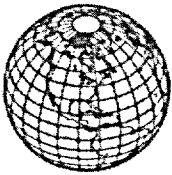
#### *Other Issues*

##### *Customs and Administrative Procedures*

Building on the 1995 "Accord on our Shared Border", Canada and the United States will pursue several initiatives in 1997 to speed road, rail and sea transit, as well as intransit preclearance at Canadian airports. To realize the benefits of free trade, Canada and the United States are creating a "smart" border that facilitates trade and tourism, but keeps illegal goods and services out — through high-technology streamlining of processes, and the provision of adequate infrastructure. The two countries will work to enhance the processing of customs data electronically at border crossings; reduce the number of stops for carriers moving goods intransit through either country; promote the use of joint or shared border facilities; and introduce new technologies to detect drugs and to enable remote inspection of travellers. Canada and the United States will also work to insure the competitiveness of the St. Lawrence seaway by promoting its usage and improving the efficiency of its operations.

##### *Cultural Industries*

Canadian policy has over the past decades fostered and nurtured cultural industries. While these industries are in many cases now seeing increasing success and are developing markets abroad, the Canadian cultural markets continue to be subject to high foreign penetration. Canadian feature films, for example, enjoy roughly 3% of screen time in Canadian theatres. In sound recording, fourteen foreign-owned firms in Canada accounted for 84% of total record sales in 1993-94. Generally, 80% of English-language newsstand sales in Canada are of foreign magazines. To ensure that its own cultural products continue to be accessible to Canadians, Canada will continue to pursue measures that will promote its cultural industries and products.



### *Trade Remedies*

Canada continues to regard fundamental reform and the eventual elimination of trade remedy measures within North America as a priority objective. Consistent with the government's priority of resolving trade remedy issues with the United States, the Prime Minister and the presidents of the United States and Mexico agreed to establish two working groups on dumping and subsidies/countervailing duties under the NAFTA three years ago. The working groups were tasked to seek solutions that would reduce the possibility of disputes concerning subsidies, dumping and the operation of trade remedy laws regarding such practices and were instructed to complete their work by December 31, 1995.

Trade law reform is a politically charged issue in the United States and there continues to be no consensus on treating Canada preferentially. In the context of the working groups, U.S. officials indicated that while they were unwilling to change their trade laws, they were willing to explore improvements to regulatory and administrative procedures governing the application of trade remedy measures. It is in these procedural areas that Canadian efforts in the working groups were focussed.

In keeping with its long-term objective of seeing the elimination of trade remedies within North America, Canada is taking steps to demonstrate, through example, the benefits of change. In this context, Canada and Chile agreed to exempt each other from the application of anti-dumping measures in the recently concluded Canada-Chile Free Trade Agreement. In addition, Canada is still pursuing discussions with Mexico on the issue of trade remedy reform. Canada plans to renew its efforts to increase, over time, awareness throughout North America of the inappropriateness of the use of trade remedies within an integrated market.

### *Electricity*

The U.S. electricity market is undergoing deregulation, restructuring and transformation to accommodate both wholesale and retail competition. The intent of the U.S. Federal Energy Regulatory Commission is to make competitive access reciprocal, that is, Canadian utilities seeking to participate in the U.S. market would also have to open their own provincial transmission lines to American utilities and other Canadian

electricity generators. Canadian officials will promote fair and competitive access by Canadian participants to the U.S. electricity market. Congress is expected to give priority in 1997 to further electricity deregulation at the retail (household) level with the introduction of comprehensive competition legislation concerning electric utilities. Canada is closely monitoring possible legislative changes.

### *Improving Access for Trade in Services Financial Services*

Canada is closely monitoring recent initiatives in the United States aimed at modernizing that country's financial services sector. In particular, Canada would like to see changes made to permit cross-ownership in the banking, insurance and securities sectors. With respect to the cross-border provision of services, Canada wishes to see a more level playing field in the securities sector. Under the NAFTA, Canada, Mexico and the United States are committed to revisiting this issue by 2000.

### *Telecommunications*

Following the conclusion of the Group on Basic Telecommunications (GBT) negotiations at the WTO, the United States has committed to allowing 100% foreign ownership in all basic telecommunications services, on the basis of 20% direct investment, and unlimited indirect investment. As a result of the agreement, Canadian firms will now have full access to the U.S. market for the provision of basic telecommunications services, and the use of reciprocity tests by the Federal Communications Commission (FCC) will be severely restrained. The United States has excluded Direct-to-Home (DTH) and Direct Broadcast Satellites (DBS) telecommunications services from its commitments, since many other WTO members were not making commitments for these services. The United States has also taken an exemption to the most-favoured-nation obligation for DTH and DBS telecommunications services. Foreigners wishing to supply DTH and DBS telecommunications services to the United States will continue to be subject to existing U.S. rules and licensing procedures, including the reciprocal access "ECO Test", that is, the status quo remains.

Canada will closely monitor the U.S. implementation of its WTO commitments, in particular, the ability of the FCC to apply its public interest tests. Canada will

continue to pursue a policy of access for Canadian telecommunications carriers or direct broadcast satellite providers to the U.S. market.

#### Shipping

A number of maritime laws (collectively known as the "Jones Act") impose a variety of limits on foreign participation in the U.S. domestic maritime industry. Under these laws, the carriage of cargo or passengers between points in the United States is restricted to U.S.-built and U.S.-documented vessels owned and manned by U.S. citizens. There are similar restrictions applicable to dredging, salvage and other commercial marine activities in U.S. waters. In international shipping, there are limitations on foreign ownership of vessels eligible for documentation in the United States. In addition, a variety of subsidies and other support measures are available to operators of U.S. vessels: cargo preference laws restrict the carriage of military cargoes and limit to U.S. vessels the carriage of government non-military cargoes, aid cargoes and certain agricultural commodities. These and other restrictions (coupled with defence-related prohibitions of the Byrnes/Tollefson Amendment) limit Canadian participation in U.S. shipping activities.

Canada will continue to use every appropriate opportunity to encourage liberalization of these restrictive provisions. Although there have been renewed calls for reform, the cabotage and cargo preference restrictions continue to enjoy significant support, limiting the prospect of any major change in the short-term.

#### *Government Procurement and Domestic Preference Legislation*

Canada seeks to limit the U.S. government's use of its currently extensive authority to reserve federal government contracts, at all levels of government, for American business. Especially onerous are the set-aside programmes for small and minority-owned businesses and "Buy American" provisions. The definition of a U.S. "small business" varies by industry, but it may apply to manufacturing firms with up to 1500 employees, or services firms with annual revenues of up to \$17 million. "Buy American" provisions affect entities not covered by the NAFTA, and contracts for construction services under the NAFTA threshold (US\$6.5 million).

Canada also seeks to improve the current extremely limited access of Canadian firms to U.S. federally-funded transportation infrastructure contracts for highways, transit systems and airports. Federal transportation infrastructure grants to state and local government also generally require the use of U.S. material and equipment.

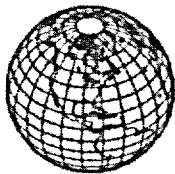
A wide variety of protectionist provisions in state and local government contracts are not covered by either the WTO *Agreement on Government Procurement* (AGP) or the NAFTA.

Over the coming year, Canada will press the United States on these market access concerns as it prepares for negotiations under the AGP early review, as required under that agreement, and during discussions leading to further negotiations under the NAFTA on government procurement, as required by the NAFTA.

Other Canadian concerns with respect to the U.S. procurement market include the enactment of the U.S. Federal Acquisition Streamlining Act in 1994 and the Federal Acquisition Reform Act in 1995, a major purpose of which was to simplify federal acquisition procedures for U.S. suppliers. A number of the provisions of the new legislation and its implementing regulations appear to make trade more restrictive for non-U.S. suppliers and may be inconsistent with U.S. international trade obligations. These include U.S. sub-contracting requirements; limits on the number of offerors; and simplified acquisition procedures for all procurement under US\$100 000 and for commercial items to a value of US\$5 million.

#### *Standards Measures*

At the federal level, the United States' increasing use of mandatory standards to achieve regulatory objectives (e.g., the Fastener Quality Act, mandatory labelling standards for textile products and a proposal to require country of origin marking in the principal display panel for frozen vegetables) is of concern to Canada. Canada continues to engage in a constructive dialogue with the United States, principally in the NAFTA Committee for Standards Related Measures, to urge that regulatory burdens on industry be reduced.



At the subfederal level, a variety of jurisdictions often impede market access for Canadian exporters. Through activities in various governmental and non-governmental standards-related fora, Canada is seeking more complete implementation by the United States of its NAFTA and WTO subfederal commitments concerning technical barriers to trade.

Canadian and U.S. agencies are co-operating closely to conclude mutual recognition agreements on testing and certification, as well as on the harmonization and joint development of regulations, where this can be of assistance to exporters. For example, the Standards Council is seeking arrangements with appropriate U.S. agencies so that assessments for conformity with U.S. regulations on fasteners and the testing of drivers for substance abuse can be performed in Canada.

Canada is also working to enhance bilateral dialogue at the provincial and state level to increase co-operative activities in the area of standards and regulations development.

Finally, Canada will continue to encourage co-operation with the United States in the development of voluntary standards.

### **3.2 Mexico**

#### *Overview*

Mexico offers excellent opportunities for Canadian exporters, service providers and investors. Trade has increased steadily since Mexico implemented a sweeping series of economic reforms in the mid-1980s. Decades-old import barriers were abandoned and policies of privatization have contributed to a significant restructuring of the economy. These gains have created unprecedented demand for various goods, services and technologies, and new possibilities for investment. In 1996, the total value of two-way merchandise trade was \$7.2 billion — a 60% increase over 1993. In 1996, Mexico had a merchandise trade surplus with Canada of \$4.8 billion. Canada's accumulated foreign direct investment in Mexico was \$1.13 billion in 1995; and in 1996, over half a billion dollars of additional Canadian direct investment went into Mexico.

*Canada's Trade Action Plan for Mexico*, developed by the Department of Foreign Affairs and International Trade (DFAIT) in partnership with a range of domestic stakeholders, outlines the government's

trade development efforts in ten sectors where there is already substantial trade, or where important opportunities are expected to develop over the medium term. Priority sectors include advanced manufacturing technology and industrial machinery; oil and gas equipment and services; and environmental equipment and services.

#### *Managing the Trade Relationship*

Canadian access to the Mexican market continues to improve and consolidate under the terms of the NAFTA. An important aspect of the NAFTA for Canada was better access to the Mexican market. Prior to the NAFTA, more than 80% of Mexican exports to Canada entered duty free, while the reverse was not the case. Canadian firms have been able to expand sales in sectors that were previously highly restricted, such as the automotive, financial services, and energy sectors. The elimination of Mexican import licensing requirements and the phasing out of almost all tariffs is helping to provide barrier-free access to a market of over 90 million consumers.

Bilateral trade irritants can generally be resolved in the various NAFTA working groups and committees. The Canadian government will continue to work on behalf of the Canadian private sector to improve access in a number of areas relating to goods, services and investment.

#### *Canada's Market Access Priorities*

##### *Improving Access for Trade in Goods*

###### *NAFTA Accelerated Tariff Elimination*

Virtually all tariffs between Canada and Mexico are being phased out and will be eliminated by 2003. The NAFTA provides for the accelerated elimination of tariffs where countries agree. This is an industry-driven process, whereby tariffs are eliminated based on support in the industry sector concerned. In the first round, Canada has pursued accelerated tariff elimination on several products, such as spandex monofilaments and automotive glass. In the future, Canada will continue to seek accelerated tariff elimination in response to private sector interest, to further improve Canadian access to the Mexican market.



### *Customs*

Although Canadian industry has not actively pressed concerns about Mexican customs administration, the Canadian government is aware that, at times, the manner in which Mexican customs procedures are implemented impedes the timely delivery of Canadian goods. The Heads of Customs Conference, comprising representatives of the three NAFTA countries, meets regularly to discuss what improvements or changes would be required to streamline the cross-border commercial process. For example, the three Heads have recently endorsed the North American Trade Automation Prototype (NATAP), an effort to harmonize and simplify the data, documents and processes required to complete a trilateral customs transaction. Work is also underway to improve enforcement co-operation, temporary entry procedures, and entry requirements for courier shipments. Under Article 512 of the NAFTA, the parties have also agreed to co-operate and assist each other in the customs area: the Customs Subgroup, a formal trilateral body, identifies, reviews and recommends specific areas for improving the Customs administration of the NAFTA.

### *Agricultural Products:*

#### *Sanitary and Phytosanitary Measures*

Canadian agricultural or related goods have, at times, encountered difficulties in entering the Mexican market. Problems have been encountered in the acceptance of Canadian animal or plant health certification procedures (e.g., for live swine, Christmas trees, seed potatoes), but both countries so far have been able to find workable solutions. Canada continues to address these irritants through meetings between technical officials or meetings at the margins of relevant fora, including NAFTA working groups and the North American Plant Protection Organization, or through the direct advocacy efforts of the Canadian Embassy in Mexico.

### *Improving Access for Trade in Services*

#### *Trucking*

The NAFTA's trucking access provisions were to come into effect in December 1995. However, the United States did not proceed to liberalize its measures because of concerns about Mexican trucking safety standards. Canadian carriers are interested in obtaining Mexican approval to expand their international

trucking services into Mexico, but because of the U.S. position Mexico has not been prepared to address Canadian or U.S. applications. Canada's position is that Mexico's trucking dispute with the United States should not be allowed to impede fulfilment of its NAFTA trucking obligations to Canada. Canada will continue to pursue this issue with Mexico in an effort to reach an early resolution.

#### *Telecommunications*

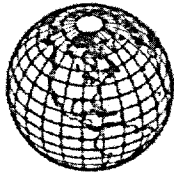
A number of Canadian telecommunications companies are doing business in Mexico. With the conclusion of the Group on Basic Telecommunications negotiations at the WTO, access for the supply of services to Mexico has increased, offering more opportunities to Canadian businesses. Canada will closely monitor Mexico's implementation of its WTO commitments.

In addition, Canada will continue to urge Mexico to put into place equipment standards that conform to the NAFTA process, and implement conformity assessment procedures that would allow the acceptance of Canadian test data as required under Articles 904 and 1304 of the NAFTA. Mexico has made encouraging commitments on both these fronts within the NAFTA Telecoms Standards Subcommittee.

#### *Financial Services*

Mexico significantly liberalized its financial services sector as part of the NAFTA. The Canadian financial services industry has increased its participation in the Mexican market since that time. One area where Canada is seeking further change in the Mexican regime, however, relates to limited-scope securities firms. While Mexico has no current plans to allow such firms, it is understood that this may be considered in the medium term. Canada will, therefore, follow with interest Mexico's work in this regard and will encourage Mexico to establish new categories of securities firms.

Canada will also follow the implementation of pension reform in Mexico. While it is understood that banks will be allowed to undertake fund management, Canada has noted that foreign securities will not be permitted as part of a Mexican pension fund portfolio. Canada will encourage Mexico to open this market to foreign securities.



### *Trade Remedies*

Although Canadian exports have seldom been targeted by Mexico, one general concern is that Mexico appears increasingly to be relying on so-called "trade remedies" to protect domestic producers. The Canadian steel industry is appealing two final anti-dumping determinations by the Mexican Ministry of Trade and Industrial Development (SECOFI) against imports of Canadian steel under the NAFTA Chapter Nineteen dispute resolution provisions. About \$6 million in Canadian steel exports were affected by the dumping duties in 1995.

Canada believes that the use of anti-dumping measures is inconsistent with the objectives of a free trade area. Canada has proposed to Mexico various options to deal with this issue, including a possible anti-dumping exemption agreement to be negotiated on a bilateral basis. Canada's recently concluded Free Trade Agreement with Chile includes a provision phasing out the use of anti-dumping actions over a period of six years as tariffs in both countries on particular goods reach zero. This provision provides Canadian exporters with an exemption from the application of anti-dumping measures in Chile, and it has a "demonstration effect" in contributing to Canada's objective of reforming the use of anti-dumping measures within the NAFTA.

### *Government Procurement*

Under Chapter Ten of the NAFTA, Mexico was required to complete its list of services excluded from the NAFTA by July 1995. In addition, Mexico negotiated set-asides from full NAFTA procurement coverage for the state oil (PEMEX) and electricity (CFE) firms for a transitional period (1994-2002). Canada will continue to urge the Mexican government to resolve these outstanding NAFTA implementation issues.

Chapter Ten also obliges the NAFTA parties to publish procurement tenders in a transparent way, including 40-day open tendering and 25-day selective tendering procedures, so that qualified suppliers from the three parties can submit bids in a competitive manner. Canadian suppliers have encountered occasional difficulties with Mexican non-compliance with the requisite time periods. After Canada expressed concern about this matter, some improvement in Mexican practice has been noted. Canada will continue to monitor this area closely.

### *Investment*

Canadian industry has not encountered any particular obstacles to investing in Mexico. Except in certain clearly defined sectors where Mexico limits or excludes foreign investment (of particular importance to Canada is the oil industry), Mexico does not restrict foreign investment in its economy. Through its Chapter Eleven investment provisions, the NAFTA has also provided greater security for Canadian investors in Mexico. In addition, the Mexican government's ambitious privatization program is creating new opportunities for Canadian businesses in sectors such as electrical generation, transportation (airports, railways, ports, highways), and natural gas transportation (pipelines) and distribution.



## 4. OTHER MAJOR MARKETS

### 4.1 European Union

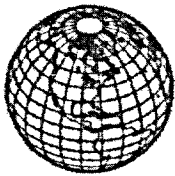
#### *Overview*

The European Union (EU) is the world's largest single market, and the second-most important export market for Canada after the United States. In 1996, Canada's merchandise exports to the EU amounted to \$15.5 billion and imports totalled \$22.7 billion. Canadian services exports to the EU amounted to \$6.2 billion in 1996 and services imports from the EU reached \$7.6 billion. For Canada, the EU is the second-largest source and destination of foreign direct investment (FDI). In 1995, cumulative FDI from the EU amounted to \$36 billion, while Canadian direct investment in Europe had grown to over \$27 billion.

#### *Managing the Trade Relationship*

The Canada-EU Political Declaration and the Joint Canada-EU Action Plan, signed in December 1996, strengthen transatlantic ties and set out concrete guidelines on the substance of the trade and economic relationship. The Action Plan calls for several new initiatives, including a joint study on the facilitation of trade and the reduction of trade barriers, and the establishment of a transatlantic Canada-EU business dialogue. The Action Plan builds upon the 1976 Canada-EU Framework Agreement for Commercial and Economic Co-operation that was developed to facilitate trade and investment and encourage various forms of economic co-operation. Regular high level consultations are held in a structure of committee and ministerial meetings established under the Agreement.

In 1996, the EU implemented concessions resulting from the enlargement negotiations with Canada that followed the accessions of Austria, Sweden and Finland to the EU. These included benefits to Canada in the form of an increase in the EU's aged cheddar cheese tariff rate quota (TRQ), the elimination of duties on canary seed, a duty-free 50 000 tonne TRQ for durum wheat, and a duty-free 10 000 tonne TRQ for worked (race-horse) oats. In addition to the specifics of this settlement, a variety of bilateral irritants ranging from the tariff definition of "pizza cheese", to the approval of U.S.-sourced bison meat for further processing in Canada (and subsequent export to the EU), were also resolved.



### ***Canada's Market Access Priorities***

Regulation of trade in goods and services between Canada and the EU is based essentially on WTO rules. The Uruguay Round negotiations resulted in improved access for Canada to EU markets. Gains included the elimination of variable import levies on agricultural products, tariff cuts, elimination of some non-tariff barriers (NTBs), and reduction of EU preferential margins in favour of third countries, notably former European Free Trade Association member states and Central and East European countries. Further liberalization of interest to Canada will result from the Information Technology Agreement to eliminate tariffs on a broad range of telecommunications and computer equipment. Canada will pursue its interests in the area of financial services in the context of the GATS financial services negotiations.

There remain, however, areas where Canada seeks improvements in access to the EU market — either as part of sectoral global free trade initiatives such as elimination of tariffs on non-ferrous metals, paper, wood products, fish and fish products, and some chemicals — or EU-specific objectives, including those in agricultural products, value-added food products (including sugar-containing foodstuffs), wood door frames and joinery. In this regard, Canada will continue to support industry-led efforts to seek a reduction in the high (6%) tariff that the EU applies to Canadian aluminum and aluminum alloys.

### ***Improving Access for Trade in Goods***

#### ***Agriculture***

The EU's Common Agricultural Policy has long been of concern to Canada, since it both restricts access to EU markets for Canadian agricultural products, and has disruptive effects on markets in third countries, in particular through subsidized production and subsidized exports of grains.

#### ***Cereals Import Regime***

As part of the WTO *Agreement on Agriculture*, the EU agreed to assess duties on imported grains such that the duty-paid import price would not exceed the EU intervention price increased by 55%. Rather than determining the duties payable on cereals on a transaction or shipment-by-shipment basis, the EU has devised a system of representative prices based on

U.S. grades and prices that are adjusted to a landed EU-basis. Canada objects to the use of representative prices, which expose Canadian grains to duties in excess of the EU's WTO commitment. Canada continues to seek changes to the regime that would provide equivalent effect to a transaction price-based system.

#### ***Administration of Tariff Rate Quotas for Wheat and Durum***

Canada was intended to be the principal beneficiary of an annual duty-free quota of 300 000 tonnes of high quality milling wheat and durum. Canada's share of the quota, the ratio of durum to wheat within the quota, and the administration of the tariff rate quota are matters Canada will continue to raise with the EU.

#### ***Wines and Spirits***

Canada seeks assured access for its exports of quality wines. Achieving this objective requires EU acceptance of the equivalency of Canadian wine-making practices, and recognition of Canadian grape-growing regions and grape varieties. This issue is under discussion with the EU (see section on intellectual property below).

#### ***Fish***

Reference prices for fish are applied under the Common Fisheries Policy. While the EU has made sparing use of duties for non-compliance in this sector, the reference price system has a negative effect on the development of the EU market for Canadian fish exports. In the case of herring, tuna and cod, imports must conform to the reference price if they are to qualify for reduced tariffs within specific quotas.

#### ***Technical Barriers***

An essential part of the EU single market program is the elimination of technical barriers to internal trade through mutual recognition of voluntary national standards, testing and certification as well as the legislation of Union-wide directives on essential technical requirements. The directives cover a wide range of products including construction products, toys, machinery, electrical goods, telecommunication terminal equipment and medical devices. Compliance with EU technical directives, member state enacting legislation or voluntary standards would allow producers to affix the "CE" mark to their product.

This system presents a complex series of requirements. Some of the EU directives, such as the one dealing with electromagnetic conformity, cover several sectors. Others, such as the personal protective equipment directive, deal with only one product sector. A third category, which would include telecommunications terminal equipment, would have to meet both sector-specific and horizontal technical requirements.

Although the ability to affix the "CE" mark would facilitate the entry of Canadian products into the EU market, Canadian exporters face difficulties and expense in understanding and complying with this complex, interlinked system of technical requirements and standards. Failure to comply could mean that products are prohibited from entering the EU, or that suppliers are excluded from tenders or consideration by large-scale commercial buyers.

Both Canada and the EU recognize the benefits of reducing the cost and burden for exporters of compliance with product approval requirements without compromising health or lowering standards. To simplify the process, Canada and the EU are negotiating an Agreement on Mutual Recognition of Conformity Assessment that would allow exporters to test a range of specified products in their home markets to the requirements of the other party. These negotiations are almost completed.

#### Imports of Fur

In 1991, the European Union approved Regulation 3254/91 prohibiting the use of the jaw-type leghold trap in the member states from January 1, 1995, and requiring, for each of the 13 species listed in the legislation, non-EU countries either to ban leghold traps or use trapping methods that meet international humane trapping standards. In June 1994, the European Commission suspended the import restrictions until January 1, 1996. Following the establishment of the Canada/United States/Russia/EU working group on humane trapping standards in November 1995, the European Commission decided to suspend the Regulation's implementation and to propose amendments to it. An import prohibition could have a devastating impact on the approximately 80 000 trappers for whom trapping is an important and indispensable source of income. Especially affected would be those trappers in rural and Aboriginal communities whose economy is based on seasonal activities.

Canada's view has always been that the EU ban on leghold traps is an arbitrary and incomplete response

to legitimate animal welfare concerns. The import restriction provisions of the ban are also inconsistent with the EU's trade obligations under the WTO. Canada maintains that the real solution is to establish an international agreement on humane standards for traps used in all trapping situations.

In late 1996, the EU, Russia and Canada initialled an agreement based on scientifically developed standards. If approved by all parties, it would be the first ever international agreement with direct impact on animal welfare. In making major compromises in these negotiations, Canada agreed that the conventional steel-jawed leghold restraining trap would be banned in a maximum of four years even if no alternatives were available. For both European and North American species, the agreement will phase out many types of killing and restraining traps, whereas EU Regulation 3254/91 is aimed at only one family of restraining trap. The agreement furthermore provides a major opportunity for the EU, Canada and Russia to legislate new and higher trapping standards and allows the EU to realize the original (animal welfare) objectives of Regulation 3254/91. In the absence of this Agreement, there does not appear to be any similar Commission or European Parliament proposal to raise EU trapping standards.

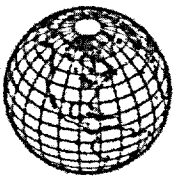
#### Asbestos

Following the decision of the French government to ban asbestos except where substitutes are not available, Health Canada commissioned a review by the Royal Society of Canada of the French INSERM report, on which that government's decision was based. The review questioned the data used in the report to assess exposure to asbestos among the French population. Canada has asked the French government to justify its ban under the WTO *Agreement on Technical Barriers to Trade*.

#### Sanitary and Phytosanitary Import Regulations

##### Pinewood Nematode

Since July 1993, the EU has required that softwood lumber, except cedar, imported from Canada be either kiln-dried or heat-treated to ensure elimination of the pinewood nematode (PWN) insect pest. This has effectively eliminated Canadian exports of untreated softwood lumber to the EU. Given the negligible risk of transmission of PWN to the forests of Europe, Canada views this as an excessive measure. Canada has proposed an enhanced visual inspection program



for shipments of Canadian lumber to address EU concerns, and looks forward to prompt and favourable consideration of it by the EU Plant Health Committee.

#### **Beef Hormones**

An EU prohibition on the use of hormones to promote growth in animals has been applied to imports of meat and meat products for human consumption since 1989. In the absence of scientific justification for the ban, and in light of internationally agreed standards for the safe use of certain hormones, Canada is challenging this ban under the dispute settlement facility of the WTO.

#### **Veterinary Equivalency Agreement**

The EU is conducting separate negotiations with Canada and a group of other countries including the United States, Australia and New Zealand on bilateral agreements on sanitary measures pertaining to trade in live animals and animal products. Agreement in principle with Canada on the text of this agreement was reached in March 1997, which should provide the basis necessary to develop the recognition of equivalency in our respective sanitary measures.

#### ***Export Subsidies for Agricultural Products***

The EU agreed in the Uruguay Round to reduce its subsidies on agricultural commodity exports by 36% and subsidized volumes by 21%, by July 2000. Nevertheless, EU subsidized exports, particularly of cereals, remain a major concern to Canada.

#### **Government Procurement**

The EU is a party to the plurilateral *WTO Agreement on Government Procurement (AGP)* and has made significant commitments for coverage under that Agreement, on the part of both central and subcentral governments. However, a major concern for Canada has been to achieve effective access to the EU market and particularly to contracts covered by the AGP. Canadian exporters have not, in general, been successful in breaking into EU procurement markets. Procurement trade among EU member states is very low, indicating the difficulties faced in obtaining access to EU procurement markets.

EU directives are very restrictive for EU procurement not subject to international obligations. The EU Internal Directives on Public Procurement require 50% EU-origin content and allow bidding to be restricted to EU suppliers only. Procurement in the EU telecommunication equipment market is

governed by the Utilities Directive, which covers public and private sector utilities providing one or more telecommunications services. While the Directive seeks to preclude discrimination and provide transparency in the market, it also allows the use of restricted and negotiated contract-award procedures without justification, and requires purchasers to use EU standards where appropriate. A preference of 3% is accorded to EU suppliers that match a non-EU offer. Local content requirements may be waived by the EU Council, or eliminated entirely if the EU has a reciprocal agreement with the country concerned. However, no such agreement exists between Canada and the EU. Canada's objective is to expand EU procurement coverage, either under the AGP, or in other fora, to eliminate the effect of these restrictions.

#### ***Investment***

Certain measures taken at the EU level exert an important influence upon investment decisions. These include liberalization of capital movements; trade measures such as rules of origin, anti-dumping and local content; research and development policy; competition (especially merger and acquisition) policy, and state aids. In particular, the application of competition law under conditions of increasing globalization is increasingly recognized as an influence on foreign direct investment.

#### ***Telecommunications***

With the recent conclusion of the GATS negotiations on basic telecommunications, access for the supply of services to the European Union has increased, offering more opportunities to Canadian businesses. The EU has committed to binding its internal liberalization process, which means that as of January 1, 1998, the EU basic telecommunications market will be essentially fully open to foreign suppliers. Certain restrictions will remain in some of the smaller EU markets. Canada will closely monitor the EU countries' implementation of their WTO commitments, especially as they relate to the privatisation of telecommunications monopolies.

#### ***Intellectual Property***

##### ***Reciprocal Protection of Names***

Canada has long sought protection under EU legislation for the appellation (product indication) "Canadian whisky", similar to the recognition and protection granted in Canada to the EU origin spirits

Irish whiskey, scotch whisky, cognac and armagnac. Discussions on this issue, and on assured market access for Canadian quality wines in the EU (see section on wines and spirits above) are continuing.

## 4.2 Japan

### Overview

In 1996, Canada's total merchandise trade with Japan was close to \$21 billion, with exports of \$10.5 billion and imports of \$10.4 billion. The composition of Canada's trade with Japan continues to evolve in response to changing economic conditions in both countries. Despite continued weak economic growth, Japan's demand for cost-competitive imports continues to grow strongly. Japan's total demand for imports in 1996 exceeded US\$349 billion, an increase of 4% over 1995. Japan is also a major source of direct and portfolio investment in Canada.

Through *Canada's Action Plan for Japan*, business and all levels of government are co-operating to exploit new export opportunities in seven high growth sectors: building products, processed foods, fish and seafood products, information technologies, furniture, health care products/medical devices and tourism.

### Managing the Trade Relationship

Under the 1976 *Framework for Economic Co-operation*, Canada and Japan continue to promote the development of trade and the expansion of economic co-operation, through mechanisms such as the annual meetings of the Joint Economic Committee (JEC). During the November 1996 visit of Prime Minister Chrétien to Tokyo, a new *Canada-Japan Agenda for Co-operation* was announced that reaffirmed a common commitment to facilitate the expansion of trade and investment through measures designed to improve transparency and market access.

To expand market opportunities for Canadian exporters, Canada has actively supported the Japanese government's efforts to stimulate the Japanese economy through deregulation, strengthened competition policy and further market liberalization. In this dynamic environment, Canada and Japan have recently addressed a series of issues of long-standing concern to Canadian business:

- Japanese procedures for procurement of wheat under grant aid have been revised to allow Canadian participation;

- Japan approved the importation of three varieties of Canadian transgenic canola, and lifted phytosanitary import prohibitions on seven varieties of Canadian tomatoes;
- Japan has agreed unilaterally to cut tariffs applied to Canadian low-malt beer;
- Japan has accepted Canadian standards for dimension, finger-joined and machine stress-rated lumber, and is currently processing a similar application for oriented-strand board;
- Japan has authorized the Canadian Construction Materials Centre to submit evaluations of new products in support of the development of new Japanese standards, and has authorized a Canadian testing laboratory to undertake fire tests for Canadian building products to certify conformance to Japanese standards;
- Japan's Government Housing and Loan Corporation (GHLC) has accepted Canadian plywood for use in GHLC-financed structures;
- Japan has streamlined visa procedures for Canadian carpenters working on 2X4 construction sites in Japan; and
- accounting rates applied to long distance calls from Japan to the United States and Canada have been harmonized, eliminating a preferential rate for calls to the United States.

### Canada's Market Access Priorities

Japan's tariff barriers have been steadily reduced through successive rounds of multilateral trade negotiations. In 1995, 71% of Canadian exports entered Japan duty free. The elimination of Japanese tariffs on oilseed products, in the context of a broader zero-for-zero agreement on all oilseeds, as well as the elimination of Japanese tariffs on wood products, fish and red meats, remain Canadian priorities. At the same time, Canada is continuing to seek the elimination of specific technical and regulatory barriers in Japan to facilitate Canadian exports in priority sectors such as agri-food and building products.

### Improving Access for Trade in Goods

#### *Agri-Food, Fish and Beverage Products*

Japan is the world's largest import market for agri-food, fish and beverage products, and is Canada's second



largest market for agri-food exports after the United States. In 1996, agri-food and fish exports exceeded \$2.9 billion. However, as outlined below, some specific tariffs, the use of safeguard measures and the applications of food safety regulations remain of concern.

**Safeguard Measures on Chilled and Frozen Pork**  
Canada is concerned about the administration of Japanese safeguard measures on pork (in the form of an increased minimum import price and higher tariffs). These measures are designed to restrain growth in chilled and frozen pork imports. Since they were first triggered in 1995, the safeguards have caused considerable market disruption and uncertainty for Canadian suppliers. On February 17, 1997, Canada joined Article XXII consultations with the EU and Japan on this issue in the WTO.

#### **Tariffs on Canola Oil**

Japan maintains high specific duties on most cooking oils (except olive oil) to provide protection to its domestic crushing industry. These duties not only serve to limit imports of crude and refined cooking oils, but also confer a competitive advantage on Japanese crushers buying oilseeds in the global market. In the absence of agreement to eliminate processed oilseed tariffs in the Uruguay Round, Canada will continue to press Japan to reduce its specific duties on crude and refined canola oil in the context of an overall multilateral zero-for-zero negotiation on all oilseeds. By April 1, 2000, the tariffs on crude and refined canola oil will fall to ¥10.9 per kilogram and ¥13.2 per kilogram respectively.

#### **Tariffs on Processed Foods**

Japan maintains high tariffs on several processed food products of concern to Canada. These products include mustard flour, frozen pizza and maple syrup. Canada continues to seek the elimination of tariffs on these products.

#### **Variety-specific Testing of Imported Fruits and Vegetables**

Japan requires that fruits and vegetables (such as tomatoes and apples) be approved for import on a variety-specific basis. The scientific basis for such an approach has been questioned, however. Variety-specific testing is not only expensive but also delays the introduction of new varieties into the marketplace as they are developed. For example, of the seven Canadian tomato varieties that were the subject of

greenhouse trials and subsequently approved for importation in September 1996, only one is currently still in commercial production. Canada has requested Japan to eliminate this requirement for new tomato varieties.

#### **Japan's Food Sanitation Law**

Japan's Food Sanitation Law and its related administrative guidelines do not clearly distinguish between sanitary and quality problems affecting food products. Quality factors do not constitute health and safety risks and should not, in Canada's view, be addressed in the same manner as sanitary factors. This problem led Japan to ban the sale of 13 brands of Canadian bottled water in 1995 (subsequently removed for most brands in 1996), causing significant damage to Canadian trade interests. Canada expects Japan to refrain from its current practice of prohibiting the sale of agri-food products based solely on its assessment of undesirable "quality" factors unless justified under the provisions of the *WTO Agreement on Sanitary and Phytosanitary Measures*.

The Food Sanitation Law also maintains standards for frozen foods that are much more restrictive than standards for non-frozen products. This has led to problems at some ports for frozen food shipments from Canada. Canadian officials do not believe that this distinction is scientifically justified. Problems have also been encountered with testing methodologies employed to ensure compliance with the Law. Canada will continue to consult bilaterally with Japan to avoid any restrictive application of these measures on Canadian exports.

#### **Export Restrictions on Wagyu Embryos and Cattle**

Since August 1992 and April 1993, respectively, Canada has been seeking to obtain Japanese agreement for the export of *Wagyu* (a distinctive Japanese breed of beef) bovine embryos and cattle. Japan has an export protocol only with the United States for live cattle, and has not acceded to any foreign requests for the export of bovine embryos. The only way Canadian producers can obtain *Wagyu* genetics (for cross-breeding or the production of Kobe-style beef) is thus through their U.S. competitors. Japanese authorities have indicated that they are prepared to negotiate a live cattle export protocol, but remain opposed to any discussion of bovine embryo exports. Canada will seek to resolve this issue through bilateral consultations in 1997.



**Baled Hay**

In order to enter Japan, Canadian hay is rigorously inspected on arrival and certified as free of wheat and barley straw and other agropyron plants that may be host to the Hessian fly. Since 1987, Canada and Japan have been discussing a protocol to establish fumigation or heat treatment procedures in Canada for baled hay imports, eliminating the need for inspection on arrival. Fumigation and thermal disinfection test results were submitted to the Japanese Ministry of Agriculture Forestry and Fisheries in November 1994. Further "confirmatory" tests on fumigation and heat treatments of hay were conducted in November 1996. Based on recent successful test results, Canada has formally requested timely approval for the fumigation treatment of hay.

**Building Products and Housing**

Japan is Canada's second largest market for building products after the United States, with 1996 exports exceeding \$2.9 billion. Canada continues to be the largest exporter of pre-fabricated housing to Japan, with sales in 1996 of \$181 million, an increase of almost 40% over 1995. Canada and Japan have agreed, under the terms of the October 31, 1994, Joint Announcement on Co-operation for Mutual Recognition in the Field of Building Standards Between the Japanese Ministry of Construction and the Canadian Department of Industry, to co-operate closely to reduce housing construction costs in Japan through regulatory reform and mutual recognition of standards and test data for building products and construction methods.

Under Japan's Emergency Priority Program for Reducing Housing Construction Costs (announced in March 1996), Japan is now preparing revisions to the Building Standards Law and Notification 56 (the 2X4 Building Code) to adopt performance-based (rather than prescriptive) building standards. Comprehensive deregulation in the housing sector and further liberalization with respect to imported building products has the potential to cut costs and to stimulate investment significantly in this key sector, to the benefit of Canadian suppliers of wooden building products. Canada will continue to consult bilaterally with Japan on the revision of the Building Code in 1997 to facilitate Canadian exports of building materials.

**Tariffs on Wooden Building Products**

Japan's system of tariff classification distinguishes between types of dimension lumber (used in 2X4 housing construction) on the basis of species. Current tariff rates on certain species of lumber used in the housing industry serve to increase significantly overall wooden housing costs. This is particularly true of tariffs applied to spruce-pine-fir (SPF) dimension lumber. Tariffs on softwood plywood, oriented-strand board and laminated lumber also remain high. Canada will continue to lobby on a bilateral basis in 1997 for their elimination.

**Fire Restrictions on Three-story Multi-unit Wooden Housing**

Current Japanese building restrictions prohibit the construction of three-story multi-unit wooden buildings in semi-fire rated zones (which cover much of Japan's urban residential areas). Wooden construction in quasi-fire rated zones is limited to two- and three-storey single family homes.

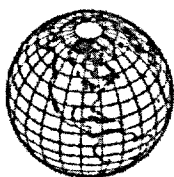
Four-storey wooden housing is completely prohibited, even in non-fire-rated zones. A "burn" test of a three-storey structure was conducted in March 1996. Based on the results of that test, the Ministry of Construction (MOC) has indicated that standards for three-storey multi-unit structures (for both residential and commercial use) will be revised this year in the context of the overall revision of the Japanese Building Standards Law and will take effect in April 1998.

**Revision of Japan Agricultural Standards for Wooden Building Products**

The revision and development of Japan Agricultural Standards (JAS) for imported wooden building materials has proven to be a slow and costly process. Canada is currently co-operating with Japan's Ministry of Agriculture, Forestry and Fisheries to revise a number of standards, including JAS 143 (structural lumber) and JAS 932 (plywood for concrete forms), to facilitate imports into Japan of Canadian wooden building products. Canada will continue to seek the implementation of these revised standards at an early date.

**Registered Grading Organizations (RGO)**

No foreign organization is permitted to administer a program of certification and quality control under the Japan Agricultural Standards Law. Certification of competent Canadian organizations as Registered



Grading Organizations (RGO) would significantly reduce the cost of JAS compliance for Canadian producers. Canada's Council of Forest Industries (COFI), as a JAS-accredited Foreign Testing Organization, has expressed its interest in receiving designation under JAS as a RGO. At the same time, steps should be taken to streamline procedures for acquiring and maintaining JAS certification of foreign facilities. Canada will continue to consult bilaterally with Japan on these issues in 1997.

#### *Telecommunications Equipment*

Japan and Canada reached an understanding on mutual recognition of test reports for telecommunications equipment in 1986. Additional measures are needed, however, to facilitate and reduce the high cost of certification for interfacing equipment for both wired and especially wireless networks. A proposal to discuss mutual recognition of testing and certification procedures was made to the Japanese Ministry of Posts and Telecommunications on January 29, 1997, and a response leading to bilateral discussions is expected shortly.

#### *Improving Access for Trade in Services*

##### *Financial Services*

In late 1996, the Japanese Government announced Tokyo's version of a financial market "Big Bang", to be implemented between 1997 and 2001. Canada will carefully monitor the proposals for reform of the Japanese financial sector and will be pursuing its interests in the GATS financial services negotiations, which will be relaunched in the spring of 1997.

##### *Telecommunications Services*

Japan is implementing significant steps to deregulate its telecommunications services market. As a result of the GATS negotiations on basic telecommunications, Japan will permit access for the supply of all basic telecommunications services. Foreign investment in new companies is unrestricted. Foreign investment in NTT and KDD is limited to 20%. As well, new rules for interconnection will likely become law by the middle of 1997, providing more opportunities and competition for Canadian telecommunications equipment and service providers. Canada will continue to monitor developments in this sector and to promote new opportunities for Canadian telecommunications equipment and services providers.

#### *Investment*

Investment in several of Japan's domestic economic sectors is subject to prior notification under the Foreign Exchange and Foreign Trade Control Law. Reserved sectors under the Organization for Economic Co-operation and Development (OECD) Capital Liberalization Code include agriculture, forestry and fisheries, oil, leather and leather products, air transport and maritime transport. In addition, many other areas are reserved on national security grounds, including the aircraft and aerospace industries, armaments, passenger transport, nuclear power, electricity, gas, heat supply, waterworks, telecommunications and broadcasting, vaccines and security guard services. These reservations will be subject to review in the context of the Multilateral Agreement on Investment (MAI) negotiations in the OECD. Given the importance of direct investment to trade, Canada will continue to support regulatory changes in Japan that improve the investment climate and facilitate market entry.

### **4.3 Republic of Korea**

#### *Overview*

The Republic of Korea is Canada's third-largest market for merchandise exports in the Asia-Pacific region (after Japan and China), and the sixth largest in the world (after Germany). In 1996, Canada's goods exports to Korea totalled \$2.7 billion and imports from Korea were \$2.7 billion.

Under Canada's *Trade and Investment Action Plan for Korea*, released in January during the Team Canada Mission to Korea, business and all levels of government are co-operating to exploit new opportunities in nine sectors: agriculture, construction, education, environmental protection, information technology and telecommunications, medical and health care products, natural resources, tourism and transportation. These business development activities are underpinned by initiatives to improve Canada's access to the important Korean market.

#### **Managing the Trade Relationship**

The Canada-Korea Special Partnership Working Group (SPWG) was launched in April 1994 to identify ways to increase and strengthen economic ties between Canada and Korea. The Working Group's goal is to increase co-operation in areas such as trade, investment, industrial co-operation, and technology

transfer. An important sub-committee of the SPWG addresses market access issues.

A Committee on Industrial and Technological Co-operation has also been created to further increase co-operation between the private sectors of Canada and Korea. Since its first meeting in October 1996, the committee has been identifying opportunities for new ventures, initially focussing on manufacturing technology, new materials, biotechnology, environment, energy and telecommunications.

Canada and Korea concluded a Mutual Recognition Arrangement (MRA) on telecommunications equipment during the Team Canada Mission to Korea in January 1997. In parallel with the implementation of the MRA, Canada and Korea agreed to initiate market access negotiations on telecommunications equipment, focussing on government procurement issues, with a view to concluding an agreement by December 31, 1997. This will give further impetus to telecommunications equipment trade between Canada and Korea.

#### **Canada's Market Access Priorities**

The Republic of Korea's economic policies are designed to promote its domestic industry and exports while discouraging imports of some value-added goods. Generally, tariffs, import licenses and import procedures all favour the importation of raw materials and industrial equipment rather than finished goods. There has been some liberalization of import procedures, but significant obstacles and rigidities remain.

Of growing concern are measures being put in place by the Korean government in response to Korea's significant current account deficit. These measures may have a significant negative impact on the ability of Canadian goods and services to enter the Korean market. Examples of these measures include expanded subsidy programs for domestic capital goods makers to avoid the importation of capital goods, restrictions on remittances to students studying abroad, and increased tax surveillance on frequent overseas travellers. Also important are recent statements by major Korean corporations (*chaebols*), and related editorial comment, that these firms have a duty to reduce imports. As a result of these developments, exporting to the Republic of Korea may continue to be challenging.

#### **Improving Access for Trade in Goods**

##### **Telecommunications**

Canada seeks to improve access to private sector and government procurement in Korea in the telecommunications equipment market. In this regard, Canada welcomes Korea's participation in the Information Technology Agreement (ITA). While Korea has recently implemented the WTO *Agreement on Government Procurement*, it has excluded from coverage purchases by Korea Telecom of telecoms products and network equipment.

Many other barriers to the Korean telecommunications market exist. These include common barriers, such as tariffs and customs procedures; as well as some impediments unique to Korea. Many of these are a result of elements of Korea's "localization" policy, such as those that influence procurement and standards setting. Canada seeks to address these issues in the market access negotiations on telecommunications equipment or, if necessary, in the 1997 meetings of the Canada-Korea SPWG.

##### **Agri-Food and Beverage Products**

###### **Tariff Rate Quota on Alfalfa**

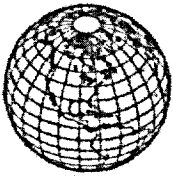
Korea's tariff rate regime for alfalfa involves an applied rate of duty (currently 1% without quota), renewable every six months. Canada would prefer a predictable tariff for alfalfa. This would decrease the uncertainty for Canadian suppliers which is important since this is a product requiring significant fixed investments in Canada.

###### **Feed Barley**

The Korean minimum access commitment for feed barley is extremely low. Korea recently opened a temporary 50 000 tonne TRQ for feed barley in 1996 and again for the first six months of 1997. Canada has requested a longer-term commitment and increasing TRQ size, to reflect the growing needs of the Korean livestock industry.

###### **Tariffs on Canola Seed and Canola Oil**

Korea's applied tariff rates on canola seed and canola oil remain significantly higher than the applied rates for substitute vegetable oil products. Since harmonization of tariffs between substitute products will not likely increase overall imports of edible oils, Canada has requested that the tariff margins between canola oil and competing vegetable oil products be eliminated or reduced.



**Tariffs on Malting Barley and Barley Malt**  
Korea's latest applied tariff rate for malt is 10% versus 5% on malting barley. Previously applied rates, although higher, were equal. This new form of discrimination now faced by Canadian malt producers impedes market opportunities that were developing. To minimize artificial incentives and disincentives to import one product over another, Canada opposes the introduction of new tariff escalation between raw and processed products.

**Tariffs on Feed Peas**

Korea's tariff for feed peas is 30%. Tariffs for competing feed products are generally less than 5% (barley at 1%, feed wheat at 1%). Canada believes that the current tariff discourages the import of feed peas vis-à-vis other feed imports, to the detriment of the Korean domestic feed industry. In order to permit the Korean compounding industry access to this alternative feed product, Canada has requested a tariff of no more than 5% for feed peas.

**Soybean Tendering**

The tendering system administered by the Agricultural Fishery Marketing Corporation in Korea prevents Korean importers from accessing the high quality, premium priced soybeans that Canada produces. Korea has a tariff rate quota for soybeans, which is administered through international open tender, mainly on the basis of price. This is an inflexible system that has no provision for price premiums for quality, tendering on small lots or long-term contracting. Canada believes that Korea cannot currently fully supply its soy processing sector with the required high quality product and that it would be to the mutual advantage of both countries to provide more options in the administration of imports.

**Bottled Water**

In December 1995, Canada held WTO consultations with Korea regarding its ban on the importation of ozone-treated bottled water. As a result of these consultations, Canada and Korea reached an understanding whereby Korea agreed to amend its legislation and regulations to allow the importation of ozone-treated bottled water no later than April 1, 1997. To date, however, Korea has not yet amended its legislation/regulations. Should the issue remain unresolved, Canada will pursue its WTO option.

Canadian exporters of bottled water also face complex import procedures and burdensome shelf-life requirements. Two Canadian exporters using an alternative treatment processes (i.e., ultraviolet treatment) in order to access the Korean market still face complicated import procedures. Of particular concern is the requirement that importers undertake a 48-point analysis test for each shipment which is both costly and time-consuming (up to three weeks). To address this, Canada has asked Korea to implement a risk-based approach to sampling.

Canadian exporters consider the current procedures for extending shelf life to be burdensome, time-consuming, and costly. Canada continues to urge the Korean government to implement a manufacturer-determined shelf life system for bottled water — as it has done for other food products.

**Seal Meat**

Korea maintains an informal import prohibition on seal products and has not yet responded to Canadian requests on its certification requirements for imports of seal meat for human consumption. Canada has made representations to Korean authorities pointing out that Canadian seals are not endangered and has asked Korea to allow imports.

The importation of seals was liberalized in Korea as of January 3, 1995. At present, imports of seal meat require approval from the Korean Minister of Health and Welfare as a Canadian inspection certificate is not sufficient. The Korean authorities will also consider whether the meat has been traditionally or commonly used for human consumption in Korea. Canada will press to obtain the necessary approvals for the sale of seal meat in Korea.

**Investment**

Korea has made significant progress in the liberalization of its foreign investment regime. The implementation of the measures contained in the 1995 Revision to the Foreign Exchange Reform Plan should further advance the liberalization process, particularly in the area of capital flows and foreign exchange transactions.

In addition, the commitments Korea has made in respect of its accession to the OECD will address a number of the concerns that Canada has expressed regarding the Korean financial system and foreign direct investment regime. Further, Canadian interests

in the financial services sector will be pursued in the context of the WTO GATS financial services negotiations.

A key remaining concern is related to the maintenance of restrictions on capital inflows. It is understood that in the present circumstances, it is difficult for Korea to reduce further the number of its capital restrictions. Canada is, however, encouraged by the determination of Korean authorities to remove remaining capital controls within five years.

#### 4.4 Hong Kong

In 1996, Canada's merchandise exports to Hong Kong totalled \$1.2 billion and imports from Hong Kong reached \$1.1 billion. Hong Kong is Canada's 10th-largest market for merchandise exports, over half of which are manufactured or semi-manufactured goods. Hong Kong is also very important for Canadian services exporters. Canadian banks, law firms, insurance companies and engineering firms are all operating in Hong Kong and generate substantial earnings. Cumulative Canadian direct investments in Hong Kong reached \$2.5 billion in 1995; Hong Kong's investments in Canada reached \$3 billion in 1995.

On July 1, 1997, Hong Kong will be transferred to the People's Republic of China and, under the Sino-British Joint Declaration and the Basic Law, it will become the "Hong Kong Special Administrative Region" of the People's Republic of China. Under the Basic Law, the Hong Kong Special Administrative Region will continue its present economic system for the next 50 years. It will continue to be a free port and a separate customs territory from China. It will have independent finances with its own currency and its own tax system. Hong Kong is currently a member of the WTO and, after July 1997, it will continue to be a member as "Hong Kong, China." The free trade practices of Hong Kong are expected to continue and Canada does not expect to face any significant market access issues with the Hong Kong Special Administrative Region.

Canadian firms currently enjoy excellent access to the Hong Kong market and there are no outstanding bilateral market access issues. Hong Kong's economic, fiscal and budgetary policies have been developed with its dependence on trade in mind. The policy

of minimal government interference in the economy applies equally with respect to trade in goods and services and to investments.

In the area of services, Hong Kong has indicated it will review rules and regulations which may restrict entry or reduce competition in some cases, with a view to relaxing or removing these measures. There are also some restrictions on the import of frozen meat and poultry as well as a quota system for rice. These controls are to be relaxed over the next three years.

With the conclusion of the GATS basic telecommunications negotiations at the WTO, access for the supply of services to Hong Kong has increased, offering more opportunities to Canadian business. Given the existence of the Hong Kong Tel monopoly, Hong Kong is making commitments for selected international services only. Canada will closely monitor Hong Kong's implementation of its WTO commitments.

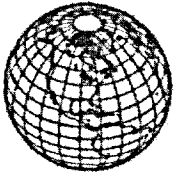
Canada and Hong Kong have begun discussions on a Foreign Investment Promotion and Protection Agreement that would, among other benefits, afford greater protection to Canadian investments in Hong Kong.

#### 4.5 India

##### *Overview*

The Indian economy has improved dramatically since 1991, when India launched its program of economic reforms and trade and investment liberalization. India's economic growth rate in 1995 was 7%. Total Canada-India merchandise trade for 1996 reached \$951 million, with a balance of \$256 million in India's favour. Canadian investment in the Indian market is significant; in 1995 Canada was the eighth-largest investor with investments totalling \$151 million.

India now offers significant opportunities for Canadian trade and investment. As well as a high growth rate, India has a middle class of 200 million people whose demand for consumer goods is increasing rapidly. These opportunities were the inspiration for the successful 1996 Team Canada mission to India, during which Prime Minister Chrétien led a group of seven provincial premiers and cabinet ministers and 300 business people to boost trade and investment ties.



### ***Canada's Market Access Priorities***

Despite the trade and investment potential, several general and specific problems remain in gaining access to Indian markets. In general, there is a lack of transparency in decision-making and bid selection, and a continuing use of wide-ranging restrictions (claimed by India to be justified under the WTO Balance of Payments exception) on the importation of consumer goods.

A number of significant Canadian projects depend on economic reforms in the sectors outlined below. These issues will be discussed at the Indo-Canadian Joint Ministerial Committee scheduled for May 1997.

#### ***Telecommunications***

Canadian firms continue to have difficulties in penetrating the Indian market for telecommunications goods and services. In the basic and cellular services sector, non-transparent bid methods, additional fees added after the bid process, and the absence of the long-promised Telecoms Regulatory Authority of India (TRAI) have all frustrated access to the market. The TRAI received presidential approval in January 1997 and is expected to be operational by summer 1997. Moreover, some of the new fees for basic and cellular services have been reduced or eliminated. Without the TRAI, however, the Department of Telecommunications is both regulator of and competitor to private sector firms.

India participated in the GATS basic telecommunications negotiations, essentially binding its existing regime, which provides for the government operator plus one other company. The private operator may have foreign equity of up to 25%.

High tariffs (in the 40-50% range) also impede Canadian firms' ability to sell products in the Indian telecommunications market. In this regard, Canada is encouraged that India intends to join the ITA.

Canada will continue to urge India to hasten the introduction of the TRAI legislation as well as telecommunications reform in general.

#### ***Power***

Despite strong domestic demand for additional power development and many government proclamations of fast-track projects and one-stop application

processing, few private projects have so far been implemented in the power sector. A lack of transparency, regulatory organization and the complications of state-level approval beyond that provided by the central government are further delaying much-needed projects. State electricity boards are largely in poor financial condition and will need greater support, major reforms and/or privatization, before progress can be made to reduce India's significant power supply shortage. Restrictions in the Indian financial services sector also limit the number of projects that can gain adequate financing. Canada will continue to use every opportunity to advocate further reforms in this sector.

#### ***Financial Services/Insurance***

Canada understands that the Indian government has recently introduced legislation to permit limited liberalization in the insurance sector. Canada will monitor the progress of such reform and will pursue its interests in the financial services sector more broadly within the GATS financial services negotiations.

#### ***Consumer and Manufactured Goods***

India maintains a large number of import restrictions ("negative list"), largely affecting consumer and manufactured goods (as well as agricultural products). The list includes banned items (e.g., offals, animal tallows), restricted items (numbering in the thousands) requiring a license, and so-called "canalized" items that must be imported via state trading monopolies (e.g., wheat via the Food Corporation of India).

More seriously, the non-transparent licensing system lends itself to inconsistent decisions and circumvention. The purported intent of this system is to protect Indian companies in sensitive sectors, for example, agriculture and food, and to prevent a balance-of-payments crisis through massive imports of consumer goods. However, the effect of these policies on the Indian economy is to permit both public and private sector firms to operate inefficiently with little or no competition, and to limit the quality and quantity of

goods available to Indian consumers. In addition, the International Monetary Fund and most of India's major trading partners do not accept that balance-of-payments concerns provide any grounds for import restrictions. Accordingly, Canada, along with other members of the WTO, is currently engaging in consultations with India on the phase-out of those restrictions.

**Investment**

India maintains a list of 35 sectors where approval for investments up to 50% of ownership is automatic if certain other conditions (such as location and performance requirements relating to imports of equity and new equipment) are met. All other investments must be approved by the Foreign Investment Promotion Board, and investments of over R\$3 billion (\$120 million) or those that may have major (undefined) policy implications must be approved by a Cabinet committee. Foreign investment is prohibited in some service industries. Investment in other sectors is limited to a maximum of 49% foreign equity. Up to 100% foreign ownership is permitted for certain areas including export-oriented firms, energy, high technology and infrastructure, but approval for such ownership is not guaranteed. The procedures for obtaining investment approvals are often non-transparent.

A foreign investor can own a property for use in carrying out business transactions only with the permission of the Reserve Bank of India or state industrial developmental corporations. Generally, foreign investors must bring foreign exchange into the country for purchase or rental of property.

Neither rental income nor the proceeds from a property sale can be remitted outside India at any time unless the investor is a non-resident national or person of Indian origin. Legislation for the protection of intellectual property, particularly patents in areas of interest to Canadian investors, is weak.

Canada is negotiating a Foreign Investment Promotion and Protection Agreement with India which, over time, will address these issues and provide a more stable investment climate.



## 5. NEW FREE TRADE AGREEMENTS

### 5.1 Canada-Chile Free Trade Agreement

The Canada-Chile Free Trade Agreement (CCFTA) is a comprehensive trade agreement, covering trade in goods and services, investment and dispute settlement mechanisms. The CCFTA also includes two parallel agreements on environmental and labour co-operation, modelled on the North American Free Trade Agreement side agreements.

The agreement, scheduled to enter into force on June 2, 1997, following the expected approval of implementing legislation in both countries, will open new opportunities for Canadian firms in this important market.

Chile has the most stable and the fastest-growing economy in its region; over the last decade, annual economic growth has averaged almost 7%. Chile's market liberalization and economic stabilization programs have already resulted in an important increase in Canadian business. Total two-way Canada-Chile trade has increased dramatically since 1990, with merchandise shipments totalling \$2.3 billion in 1996, up over 20% from the level in 1994. In 1996, the trade balance was \$11 million in Chile's favour. With current Canadian investments in Chile totalling more than \$7 billion, Canada is the second-largest foreign investor in Chile.

The CCFTA paves the way for increased trade with Chile by eliminating duties on roughly 75% of current Canadian exports to Chile on implementation of the agreement. A further 15% of current Canadian exports to Chile will be duty free within five years. Excellent opportunities will exist in the following sectors: machinery and equipment, particularly for use in mining and forestry; telecommunications equipment; fertilizers; metallurgical and thermal coal; pharmaceutical; certain chemical and glass products; a range of wood and paper products; aircraft; rail and urban rail equipment; autos and auto parts; and health and medical equipment.



The CCFTA also provides for a mutual exemption from the application of anti-dumping duties. For each good, the anti-dumping exemption takes place when the tariffs on that good have reached zero in both countries, or after six years, whichever is earlier. The CCFTA includes a review clause which requires both countries to review the anti-dumping exemption no later than five years after the coming into force of the agreement. The CCFTA also contains an exceptional circumstances clause that provides for special consultations on specific problems should these arise.

The CCFTA also marks a significant further guarantee of liberalization in the area of services. In particular, the Agreement freezes Chile's current regulatory regime, which is relatively open by international standards. This will ensure that Canadian service providers will continue to benefit from an open and transparent business environment. The CCFTA also includes provisions on temporary entry which expedite entry for Canadian traders and investors, business visitors, inter-company transferees and other business professionals. The Agreement will enhance commercial opportunities for Canadian service providers in sectors such as mining, forestry, construction, engineering and other professional services, consulting services, specialty air services, education and training, and tourism.

With respect to investment, the CCFTA offers significant new protection for Canadian investments in Chile, including an agreement to automatically grant Canadian investors the benefits of any future liberalization, and an undertaking to negotiate a bilateral double taxation agreement. While the Agreement will allow Chile to maintain existing capital control measures under its Central Bank legislation, it nevertheless prevents Chile from imposing more restrictive measures against Canadian investors. Canada expects to revisit the issue of the reserve requirement in any future negotiation of Chile's accession to NAFTA.

The CCFTA demonstrates Canada's determination to create jobs and encourage economic growth through trade liberalization. As a bridge to full NAFTA accession for Chile, and as a step toward fulfilling Canada's broader trade policy objective of promoting hemispheric trade liberalization under the Free Trade Area of the Americas (FTAA), the CCFTA is evidence that free trade between North and South America can be achieved.

## 5.2 Canada-Israel Free Trade Agreement

The Canada-Israel Free Trade Agreement (CIFTA), implemented on January 1, 1997, is another building block in the Canadian government's efforts to expand trade opportunities for Canadian business. Two-way trade in goods reached \$500 million in 1996 and is growing rapidly.

The CIFTA is focussed on removing barriers to trade in goods. Tariffs on bilateral trade were removed on virtually all industrial products immediately upon implementation of the agreement. Duties were also removed or lowered on a range of agricultural, agri-food or fish products of direct export interest to Canada. The Agreement also contains a provision that Canada and Israel enter into further discussions by January 1, 1999, with a view to removing tariffs on additional agri-food items.

The CIFTA levels the playing field for Canadian producers competing against their European and American counterparts. Israel has had free trade agreements with the European Union and the United States for a number of years, and has negotiated agreements with other countries in more recent years. As a result, Canadian exporters faced Israeli tariffs — which ranged from 10% to 25% for many of Canada's exports — while their main competitors have enjoyed duty-free access.

Canadian manufacturing sectors which are expected to benefit from the CIFTA include environmental and pollution control equipment, advanced technology products, energy, oil and gas, and forestry products. In the case of agriculture, sectors well positioned to take advantage of the new access to the Israeli market include grain and grain products, oilseeds, pulse crops and various processed foods.

Canada intends to extend the benefits of the CIFTA to goods originating from the West Bank and Gaza Strip. Details are likely to be finalized by the summer of 1997.

Canadian investors have indicated that they face few barriers to investing in Israel. However, given that trade and investment are interrelated and mutually enhancing, Canada and Israel have entered into discussions with a view to concluding an agreement, complementary to the CIFTA, to promote and protect foreign investments.



## 6. MULTILATERAL AGREEMENT ON INVESTMENT NEGOTIATIONS

In May 1995, the member countries of the Organization for Economic Co-operation and Development (OECD) agreed to launch negotiations for a Multilateral Agreement on Investment (MAI), open to accession by non-OECD countries. The negotiations are scheduled to conclude in May 1997. As of March 1997, the target date appears to be ambitious since many issues need to be addressed.

The MAI constitutes a first attempt to elaborate a set of multilateral disciplines, similar to those governing international trade. It would build upon the investment rules of the NAFTA, the EC treaties, previous OECD agreements, the existing rules of the WTO and bilateral investment agreements that Canada and many other countries have.

The cornerstone of the MAI would lie in two "core" obligations: the obligation for a country to provide equal treatment between foreign and domestic investors and investments (national treatment); and to treat all foreign investors and investments the same way without favouring one or some (most-favoured nation treatment). The MAI would include rules governing the conditions for expropriation, requirements for prompt and effective compensation, and the unrestricted transfer of funds. Each MAI signatory would be able to challenge any measure of another signatory it considers contrary to the MAI. In addition, the MAI would enable an investor to bring a claim against a state directly. The structure of dispute settlement is expected to be similar to that in the NAFTA.

The MAI would also include rules regarding other measures affecting foreign investment. For example, it would prohibit certain performance requirements, such as local content and minimum levels of exports, and the use of specified performance requirements as conditions attached to advantages such as subsidies. The MAI would also include disciplines on measures governing the temporary entry and stay of key personnel, as the ability to transfer and hire such individuals is an essential element of a decision to invest and in the operation of an investment. Rules for governments to ensure equal treatment for foreign investment with respect to privatization, actions of monopolies and state enterprises, and the granting of investment incentives are also likely to be included in the MAI.

## MULTILATERAL AGREEMENT ON INVESTMENT NEGOTIATIONS

Canada has already exchanged extensive investment rights and obligations with the United States and Mexico in the NAFTA. The main objective in the MAI negotiations is to extend these NAFTA rules to all OECD countries, and to any country willing and able to accede to the MAI. In particular, Canada will ensure that the government retains the ability to provide for the protection of cultural industries and other sensitive sectors.

The MAI also offers an opportunity for Canada to seek to address other issues that are not covered in existing agreements. For example, Canada is seeking the inclusion in the MAI of provisions to ensure that any extraterritorial application of domestic jurisdiction affecting investors in Canada does not conflict with Canadian law or policy, which would provide greater protection to our investors and their investments abroad. Other areas being considered in the negotiations that are especially relevant to Canadian investors include the application of national treatment with respect to research and development consortia and incentives, and investment incentives in general.

Canada is arguing vigorously to make the MAI as attractive as possible to non-OECD countries and to encourage their accession at the earliest possible date. The issue of accession of non-members also relates to the emerging investment agenda, which Canada is pursuing in the WTO.

Canada would benefit from a comprehensive MAI in three ways:

- by affording greater protection to Canadian direct investment in OECD and other MAI-adhering countries;
- by advancing Canadian trade and investment interests abroad to the extent that the MAI reduces barriers or discrimination adversely affecting outward Canadian investment; and
- by raising the attractiveness of Canada as an investment location through the undertaking of state-of-the-art obligations. The MAI could also serve as a model for an eventual WTO-based investment agreement.



## 7. REGIONAL INITIATIVES

### 7.1 Asia Pacific Economic Cooperation

The Asia Pacific Economic Cooperation (APEC) forum was established in 1989 to foster economic co-operation on the Pacific Rim. It currently has 18 members: Australia, Brunei, Canada, Chile, China, Chinese Taipei (Taiwan), Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, Thailand and the United States. In 1994, in Bogor, Indonesia, APEC economic leaders declared their commitment to work toward "free and open trade and investment" in the region by the year 2010 (or 2020 for developing economies). This initiative was followed by the 1995 *Osaka Action Agenda*, a comprehensive work program that initiated work toward the Bogor objectives and the 1996 *Manila Action Plan for APEC*, which prepared the ground for implementation.

APEC addresses market access issues both directly, via voluntary, individual and collective liberalization initiatives, and indirectly, through trade and investment facilitation projects that aim to reduce the cost of doing business in the region.

Together, APEC economies represented over 50% of global output and about 40% of merchandise trade in 1995. Continuing rapid economic development and the world's fastest-growing middle classes mean that the Asia Pacific represents a huge potential market for Canadian goods and services. Several sectors can be expected to generate sustained increases in demand for imports, including transportation, telecommunications, energy, environment, human resource development, and professional and financial services.

The APEC work program centres on two policy committees, the Committee on Trade and Investment (which oversees a wide range of trade and investment liberalization and facilitation activities) and the Economic Committee (which undertakes analytical work, particularly on cross-cutting issues), and also includes a broad range of economic and technical co-operation activities. Overall direction for the APEC process is provided by national leaders and trade and foreign ministers, who meet annually. Canada chairs APEC in 1997, providing it with a unique and important opportunity to influence

the direction and priorities of the organization. In conjunction with Canada's chairing of APEC, the Canadian government has declared 1997 to be Canada's Year of Asia Pacific.

A separate body, the APEC Business Advisory Council, is a formal channel for private-sector involvement in the APEC process, recommending specific actions that will benefit the business community.

### *Market Access Activities*

#### *Individual Action Plans*

Trade liberalization in APEC centres on the Individual Action Plans (IAPs) of member economies. Each APEC member economy has submitted an IAP setting out a schedule for liberalization in 14 "action areas": tariffs; non-tariff barriers; services; investment; standards and conformance; customs procedures; intellectual property rights; competition policy; government procurement; deregulation; dispute mediation; mobility of business people; rules of origin; and, information gathering and analysis.

The IAPs are dynamic documents that are updated regularly to reflect new, voluntary commitments made by economies toward the goal of free and open trade and investment in the APEC region by 2010 or 2020. It is important to remember, however, that IAPs are voluntary, non-binding submissions. These documents are publicly available on the Internet (<http://www.apecsec.org.sg>).

#### *Collective Action Plans*

Canada is working with other APEC economies to respond collectively to the instructions from leaders to trade ministers to "identify sectors where early voluntary liberalization would have a positive impact on trade, investment, and economic growth in the individual APEC economies as well as in the region."

#### *Tariffs*

Canada is encouraging all APEC economies currently not participating in the Uruguay Round zero-for-zero and chemical harmonization accords to commit to the tariff reductions in those accords under their individual action plans.

In 1996, APEC played a key role in securing support for the WTO-based Information Technology Agreement (ITA). This was a demonstration of APEC's willingness and ability to reinforce and advance the wider multilateral trade agenda. APEC is exploring the possibility of other sectoral liberalization initiatives.

APEC is developing an online applied tariff and customs database, allowing companies access to better information on applied tariffs and customs processes in different APEC economies. The database is expected to be available on the Internet during 1997; in 1998, it will be expanded to include non-tariff measures.

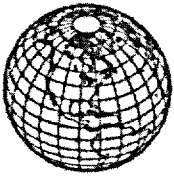
#### *Non-tariff Barriers*

In 1998, APEC will compile a list of non-tariff measures in use among APEC economies, covering issues such as import licensing, import or export levies, export subsidies, minimum import prices, and the products affected by them. The aim is to ensure consistency with WTO obligations and to provide greater clarity and openness, with better information and lower costs for business.

#### *Investment*

In 1996, leaders called on APEC to intensify its work on investment and to enhance the environment for investment in the region. Through APEC, Canada is encouraging member economies to improve the transparency of their investment regimes, to reduce/eliminate barriers to investment, and to strengthen investment protection. Canada believes that these activities will contribute to enhancing investment flows within the region. As well, Canada hopes that this work will also contribute to the emerging work program on investment within the WTO.

In 1997 and 1998, the APEC work program will: further its analytical work on investment issues; initiate a policy dialogue; and enhance the relationship with the APEC business sector, including through international symposiums.



### *Services*

In 1996, APEC leaders directed their trade ministers to intensify work on facilitating comprehensive trade in services. Accordingly, the Committee on Trade and Investment and its Group on Services have begun a 1997 work program that focusses mainly on information-gathering, including a review of the services sections of the IAPs, a review of services arrangements within the APEC region and the identification of measures affecting trade in services. As well, the group on services is to prepare a study of existing databases on trade in services statistics and to undertake various steps to increase the transparency of existing laws and regulations respecting services.

Four APEC working groups (telecommunications, transportation, energy and tourism) deal with services issues as part of their mandate. Noteworthy initiatives in a wide-ranging work program include: securing the agreement of all but two APEC economies to conform with APEC Guidelines for Trade in International Value-Added Network Services by 1998; working toward the mutual acceptance of energy test facilities and results; a model telecommunications mutual recognition understanding being developed under Canadian leadership; and the creation of an inventory of, and the development of a program to remove, impediments to the free flow of tourists.

### *Implementation of Uruguay Round Commitments*

APEC has held seminars aimed at encouraging implementation by member economies in areas such as services, rules, government procurement, intellectual property, rules of origin, agriculture, sanitary and phytosanitary measures, technical barriers to trade and anti-dumping. These seminars have given other member economies the opportunity to discuss implementation problems and to identify the need for targeted assistance to address them.

### *Standards*

As 1997 chair of APEC, Canada assumes the Chair of the Committee on Trade and Investment Subcommittee on Standards and Conformance (SCSC). A priority for Canada in this forum is to implement and monitor Collective Action Plans, and to increase Canadian participation in the SCSC work program.

Highlights of the SCSC's 1997 work program include:

- to develop, and/or align with, international standards in agreed priority areas; to identify additional priority areas for alignment with international standards;
- to publish guidelines for the preparation, adoption and review of technical regulations; to convene a seminar on environmental management standards;
- to develop a plurilateral Agreement on Mutual Recognition (MRA) in the area of electrical and electronic equipment safety; to promote full participation in the MRAs on food and toy safety, oversee the work of specialist regional bodies intended to promote mutual recognition in the voluntary sector; and
- to promote implementation of the SCSC Technical Infrastructure Development Program (1996-2000); and to carry out a survey on technical infrastructure development and a Partners for Progress project on standards and conformity assessment schemes.

### *Customs*

As Chair of the APEC process for 1997, Canada also assumes the convenorship of the CTI Sub-committee on Customs Procedures (SCCP). The focus of the SCCP's work is to facilitate trade by simplifying and harmonizing customs procedures. These efforts will benefit Canadian firms by reducing the costs and complexities of doing business in the Asia-Pacific region. The key elements of the SCCP's 1997 work program are:

- to advance the SCCP's common action plan, which will simplify and harmonize customs matters for APEC business since all 18 administrations will be following the same set of international customs rules in nine critical areas, such as tariff classification, valuation, appeals provisions and temporary importations;
- to increase private sector involvement through such activities as the APEC Customs/Industry Symposium (May 7-9, in Montreal) to ensure that the SCCP's activities are in keeping with the concerns and priorities of business; and
- to publish SCCP compendiums on preferential and non-preferential rules of origin.

*Intellectual Property*

Canada, which has implemented the obligations of the *WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)*, would like all APEC members to undertake the obligations of the WTO-TRIPS.

*Competition Policy/Deregulation*

Canada's main objectives for 1997 are:

- to identify common priority competition policy and law issues for discussion;
- to further develop a common understanding of the interrelationship between competition policy and other policies related to trade and investment;
- to identify common priority areas and sectors for deregulation;
- to discuss methods and means for promoting dialogue with the business community; and
- to complement and support the work of the new WTO working group on trade and competition policy by various means, including expanding the understanding and development of competition policy among APEC economies.

*Government Procurement*

Canada has proposed that APEC initiate discussion in 1997 on non-binding principles in government procurement practices, with a view to developing an APEC contribution to the WTO working group on transparency in procurement. Sixteen of the 18 APEC economies are WTO members and will participate in the WTO transparency process.

*Dispute Mediation*

As convenor, Canada has given priority to two aspects of the work of the dispute mediation experts group: the collection, collation and publication of information on the dispute mediation services that are available in the member economies; and the co-ordination of efforts to provide information seminars on dispute mediation and settlement to further the work on the development of technical assistance to developing member economies.

**7.2 Free Trade Area of the Americas**

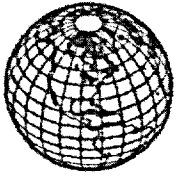
The Free Trade Area of the Americas (FTAA) process was launched by the heads of government of 34 countries of the hemisphere, including Canada, at their Miami summit in December 1994. They set a target date of 2005 and directed their trade ministers to develop an FTAA action plan.

Since then, trade ministers have met twice, in Denver (June 1995) and in Cartagena, Colombia (March 1996), and will meet again in Belo Horizonte, Brazil, in May 1997. At Denver, trade ministers "agreed to begin immediately a work program to prepare for the initiation of negotiations of the FTAA in which barriers to trade and investment will be progressively eliminated." At Cartagena, trade ministers reaffirmed that the FTAA should maximize market openness through high level disciplines built on existing agreements; be consistent with the WTO; be balanced and comprehensive in scope; not raise barriers to third countries; and represent a single undertaking comprising mutual rights and obligations. Ministers also directed their senior officials to evaluate and recommend, before Belo Horizonte, when and how to launch FTAA negotiations, taking into account the need for concrete progress by the year 2000.

To facilitate progress in the lead-up to the Brazil ministerial meeting in May, Canada has circulated a discussion paper to FTAA partners aimed at promoting discussion of the three basic questions on which consensus is required this year if the FTAA initiative is to proceed according to the timetable set by heads of government. These questions are: What will the FTAA comprise? When should negotiations be launched? How should negotiations be approached?

Canada's goals with respect to the nature and scope of the FTAA are as follows:

- The FTAA should co-exist with (i.e., not replace) hemispheric subregional agreements like NAFTA, Mercosur, and other bilateral and plurilateral trade agreements.



- It should be a single undertaking, in other words, one agreement containing the rights and obligations agreed during negotiations. It would provide for common rights and obligations among all signatories, some of which will also be members of subregional agreements with deeper or more extensive obligations.
- As a WTO-consistent agreement, the FTAA must, at minimum, include the elimination of tariffs on all products, with limited exceptions as may be negotiated by members. Negotiations should result in tariff elimination for most intraregional trade in less than 10 years, with some special provisions for smaller, less developed members. Clear and predictable rules of origin will need to be developed to ensure that the benefits of the agreement accrue to goods produced in the hemisphere. Also, customs procedures that facilitate the administration of the rules and simplify transactions for producers and traders will be an essential part of the FTAA process. This would include the development of common customs interpretations and procedures.
- There are other trade measures on goods and services that must be included in the FTAA, in some cases to incorporate WTO rights and obligations into the Agreement, in others to establish a process and timetable to go beyond WTO commitments and, in yet other cases, to incorporate into the Agreement new specific provisions. Firm commitments on investment should be included as well, reflecting the level of commitments in existing subregional and bilateral agreements.
- Finally, the FTAA should include dispute settlement procedures, as well as provide for discussion of other issues, such as relevant labour and environment matters.

With regard to when and how to achieve the FTAA, Canada's objective is for heads of government to announce the launch of negotiations at their next summit, scheduled for Santiago, Chile, in March 1998. Canada's preference is for negotiations to be concluded no later than December 31, 2003, so as to enable implementation of the FTAA by January 1, 2005. With respect to how the negotiations would proceed, Canada is on record as favouring "deliberate action", that is, participation in negotiations by the 34 members, as opposed to negotiations among subregional trading groups.

Canada continues to be a strong proponent of the FTAA. Canadian goods exports to FTAA markets outside its current free trade partners in the region (i.e., excluding the United States, Mexico and Chile) are in the order of \$3.5 billion annually. In fact, Canada's exports to Latin America have nearly doubled in the past four years. Further, Canadian investment in Latin America and the Caribbean is close to \$13 billion. Clearly, the region is of significant and growing interest to Canadian business. Canada's goal over the coming year is, therefore, to work to keep the FTAA process on track in the lead up to the Belo Horizonte ministerial meeting, where it hopes to see consensus regarding a 1998 launch of negotiations, and on preparations for the ensuing summit in Santiago.





## GLOSSARY OF TERMS

**Accession:** The process of becoming a contracting party to a multilateral agreement such as the WTO. Negotiations with established WTO contracting parties, for example, determine the concessions (trade liberalization) or other specific obligations a non-member country must undertake before it will be entitled to full WTO membership benefits.

**Anti-Dumping (AD):** Additional duties imposed by an importing country in instances where imports are priced at less than the "normal" price charged in the exporter's domestic market and are causing material injury to domestic industry in the importing country.

**APEC:** Asia Pacific Economic Cooperation forum. APEC comprises 18 countries around the Pacific Rim that seek further Asia Pacific economic cooperation. Members are Australia, Brunei, Canada, Chile, China, Chinese Taipei (Taiwan), Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, Thailand, United States.

**CIBS:** *Canada's International Business Strategy.* A blueprint consisting of a series of international business strategies spanning 27 key industry sectors. Created to ensure government international strategies and initiatives reflect the real needs of Canadian industry.

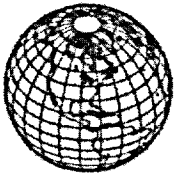
**CITT:** Canadian International Trade Tribunal. A body responsible under Canadian legislation for findings of injury in anti-dumping and countervailing duty cases and the provision of advice to the government on other import issues.

**CCFTA:** Canada-Chile Free Trade Agreement. Due to be implemented June 2, 1997.

**CIFTA:** Canada-Israel Free Trade Agreement. Implemented January 1, 1997.

**Countervailing Duties (CVD):** Additional duties imposed by the importing country to offset government subsidies in the exporting country, when the subsidized imports cause material injury to domestic industry in the importing country.

**Dispute Settlement:** Those institutional provisions in a trade agreement which provide the means for settling differences of view between the parties.



**EFTA:** European Free Trade Association. When founded in May 1960, there were 7 members. In 1995, there were four (Iceland, Norway, Switzerland and Liechtenstein) as others joined the European Union.

**Expropriation:** The seizure of private property by a foreign government without just or reasonable compensation.

**Foreign Direct Investment:** The funds committed to a foreign enterprise. The investor may gain partial or total control of the enterprise. An investor who buys 10% or more of the controlling shares of a foreign enterprise makes a direct investment.

**FTA:** Free Trade Agreement. In particular, the Canada-U.S. Free Trade Agreement that entered into force on January 1, 1989.

**FTAA:** Free Trade Area of the Americas. Proposed agreement between 34 countries of the Western Hemisphere to create a Free Trade Area by 2005, launched in Miami in December 1994.

**GATS:** General Agreement on Trade in Services. The first set of multilaterally-agreed and legally-enforceable rules and disciplines ever negotiated to cover international trade in services.

**GATT:** General Agreement on Tariffs and Trade. Since 1947, the multilateral institution overseeing the global trading system. Superseded by the WTO in January 1995.

**GDP:** Gross Domestic Product. The total value of goods and services produced by a country.

**Intellectual Property:** A collective term used to refer to new ideas, inventions, designs, writings, films, etc. and protected by copyright, patents, trademarks, etc.

**ITA:** Information Technology Agreement. A WTO-based agreement endorsed by several members that calls for the gradual elimination of most-favoured-nation tariffs on many information technology products.

**Joint Canada-EU Action Plan:** Signed on December 17, 1996, the Action Plan is designed to strengthen Canada-EU relations and consists of four parts: Economic and Trade Relations, Foreign Policy and Security Issues, Transnational Issues, and Fostering Links.

**Liberalization:** Reductions in tariff and other measures that restrict world trade, unilaterally, bilaterally or multilaterally. Trade liberalization has been the objective of all GATT/WTO trade negotiations as well as of the FTA and NAFTA negotiations.

**MFN:** Most-favoured-nation treatment (Article I of the GATT 1994) requiring countries not to discriminate between goods on the basis of country of origin or destination.

**Multilateral Agreement on Investment (MAI) Negotiations:** Launched in May 1995 by the member countries of the OECD. Scheduled to conclude May 1997.

**NAFTA:** North American Free Trade Agreement, involving Canada, the United States and Mexico, the negotiation of which started in June of 1991. Came into force January 1994.

**Non-Tariff Barriers (Measures):** Government measures or policies other than tariffs which restrict or distort international trade. Examples include import quotas, discriminatory government procurement practices, measures to protect intellectual property. Such measures have become relatively more conspicuous impediments to trade as tariffs have been reduced during the period since World War II.

**OECD:** Organization for Economic Co-operation and Development. Paris-based organization of industrialized countries responsible for study of and co-operation on broad range of economic, trade, scientific and educational issues.

**Osaka Action Agenda:** Adopted in 1995, the Osaka Action Agenda is the framework for implementing the Leaders' Declaration (adopted in Bogor, Indonesia, 1994) that APEC member economies would achieve the free and open trade within the region by 2010/2020.

**Quota:** Explicit limit on the physical amounts of particular products which can be imported or exported during a specified time period, usually measured by volume but sometimes by value. The quota may be applied on a "selective" basis, with varying limits set according to the country of origin, or on a global basis which only specifies the total limit and thus tends to benefit more efficient suppliers.

**Reference Prices:** Under the European Union's Common Agricultural Policy, the trigger price for certain vegetables, fruits, fish, and wine. The European Commission suspends imports or imposes a levy when import prices fall below the reference price.

**Rules of Origin:** Laws, regulations and administrative procedures which determine a product's country of origin. A decision by a customs authority on origin can determine whether a shipment falls within a quota limitation, qualifies for a tariff preference or is affected by an anti-dumping duty. These rules can vary from country to country.

**Subsidy:** An economic benefit granted by a government to producers of goods often to strengthen their competitive position. The subsidy may be direct (a cash grant) or indirect (low-interest export credits guaranteed by a government agency, for example).

**Tariff:** Customs duties on merchandise imports. Levied either on an *ad valorem* (percentage of value) or on a specific basis (e.g.: \$5 per 100 kgs). Tariffs give price advantage to similar locally produced goods and raise revenues for the government.

**Tariff Rate Quota:** A result of the Uruguay Round, this system replaces use of quantitative restrictions on imports by providing a two-stage tariff: imports up to the quota level enter at a lower rate of duty; over-quota imports enter at a higher rate.


**Transparency:** Visibility and clarity of laws and regulations.

**Uruguay Round:** Multilateral trade negotiations launched in the context of the GATT at Punta del Este, Uruguay, in September 1986, and concluded in Geneva in December 1993. Signed by Ministers in Marrakesh, Morocco, in April 1994.

**Valuation:** The appraisal of the worth of imported goods by customs officials for the purpose of determining the amount of duty payable in the importing country. The GATT Customs Valuation Code obligates governments that sign it to use the "transaction value" of imported goods — or the price actually paid or payable for them — as the principal basis for valuing the goods for customs purposes.

**WTO:** World Trade Organization. Established on January 1, 1995, to replace the Secretariat of the General Agreement on Tariffs and Trade, it forms the cornerstone of the world trading system.

**WTO Appellate Body:** An independent seven-person body that, upon request by one or more parties to the dispute, reviews findings in panel reports.

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