

#### **IV. TRADE POLICIES IN SELECTED SECTORS**

##### **(1) INTRODUCTION**

1. This chapter covers agriculture, textiles and clothing, steel and services, under which the focus is on telecommunications and audiovisual services, air and maritime transport, and banking and insurance. These activities were chosen because of their economic importance, because they have historically been subject to interventions for various policy reasons, or both. Although the Canadian economy is generally free from significant policy-induced distortions, such interventions detract from Canada's otherwise strong support for production based on comparative advantage, a principle that has served Canada well in most areas; these policies have also created barriers to trade and investment. For these and other reasons, including compliance with multilateral rules, changes are under way in some of the sectors described below.

2. The agriculture and related processing sector is an important generator of employment in Canada, export revenue, and value added. An Agricultural Policy Framework is being developed to help the sector better respond to consumer demand and global competition, in parallel with Canada's efforts in the current round of WTO negotiations. Support payments increased in 2001, although assistance remains low by OECD standards. The production of dairy products, chicken, turkey, eggs and broiler hatching eggs is "supply-managed" by public sector agencies. The system is dependent on import restrictions, which consist mostly of out-of-quota tariffs, often at over 200%; in-quota access is in some instances reserved for imports covered by certain preferential arrangements.

3. The textiles and clothing sector has traditionally benefited from import protection and adjustment assistance, reflecting the sector's economic role as an employer for disadvantaged groups. The main trade measures are import quotas, affecting one half of the value of imports, and high tariffs. Since 2000, these measures have been gradually relaxed under WTO commitments. In particular, tariffs were further reduced, and a third phase of quota eliminations took place in January 2002. Partly as a result of the liberalization, there has been faster import growth; concurrently, some manufacturers successfully tapped the U.S. market as a source of growth. Duty-free and quota-free access to the Canadian textiles and clothing sector has been granted to least developed countries with effect from January 2003.

4. In the steel industry, despite productivity gains in the industry, after a period of growth between 1997 and 2001 there was a decline in production and exports in 2001. Imports increased considerably in 2000 but fell in 2001, and their share of total consumption declined from 44% to 36.7%, staying around this level in 2002. The number of anti-dumping investigation initiations concerning steel products increased, in 2000 and 2001. In 2002, nine steel products were the subject of Canada's first safeguard investigation since the establishment of the WTO. Determinations of serious injury were made on five products but as at December 2002 the Government had yet to act on the recommended measures.

5. The process of gradual reform of Canada's services sector has continued, spurred in part by the need to remain internationally competitive in the context of intensified North American market integration. A liberal environment is provided for foreign commercial presence in the financial services industry. Recent reform has brought a relaxation of the limits on individual ownership of large banks and insurance companies; the range of operations that foreign bank branches may undertake has also been expanded. Unlike the banking sector, which is mostly federally regulated, insurance companies are regulated at the provincial level, which may complicate market access.

6. Competition appears to have increased further in the telecommunications sector, and the cost of certain services has dropped. There have been no major regulatory changes affecting market access or national treatment in telecommunications, and Canadian domestic ownership requirements remain in place for facilities-based carriers. Canada also controls foreign participation in the audio-visual industry, so as to support Canadian cultural content.

7. In the airline industry, the main forms of support are barriers to foreign ownership of airlines and to cabotage. Recent policy developments include the ongoing review of legislation required to protect consumers from the potential effects of a dominant carrier environment, and a new policy for charter services. The individual share ownership limit in Air Canada was eliminated in late 2001. Gradual reform in the maritime transport sector aims to increase competition both among carriers and among ports, to shift the financial burden of port management from taxpayers to users, and to down-size and commercialize infrastructures in order to increase efficiency and lower costs in the ports system. Conference operations were made subject to greater competition. Cabotage remains reserved for Canadian-flag ships.

## **(2) AGRI-FOOD**

### **(i) Introduction**

8. The agri-food sector, which encompasses unprocessed, semi and fully processed farm products as well as certain services to agriculture, is Canada's third largest employer, and one of its top five industries.<sup>1</sup> The GDP share of the agriculture and agri-food processing industries was 4% in 2001, and distribution, food retail and food services contributed a further 4.3%.<sup>2</sup> The share of agri-food output that Canada exports increased from about 9% to about 16% between 1988 and 1996, and to 25% in 2001. Canada is the world's third largest exporter of farm products.<sup>3</sup> Access to world markets is thus important for Canadian agri-food producers. Imports have also increased, from about 9% of domestic sales in 1988 to some 13% in 1996, and 15% in 2001.

9. Exports of agri-food products (including fish) grew by 12% to exceed Can\$30 billion for the first time in 2001. After the United States, Asia (particularly Japan and China) is Canada's most important export market, followed by Latin America. The share of processed consumer products such as fresh or frozen beef or pork, and frozen fries in total exports has increased, and the food and beverage processing industry has contributed significantly to the increase in agri-food exports in recent years. In 2001, half of agri-food exports consisted of consumer products, up from 41% in 1998. These consumer products account for two thirds of the value of exports to the United States, but only 23% of exports to other countries, which mostly purchase bulk products from Canada, such as wheat and oilseeds. This could partly highlight similarity of taste in Canada and the United States, integration of food distribution and marketing networks in the two countries, or tariff escalation in export markets.

10. As in other countries, Canada's agri-food sector has been undergoing continuous change. The 2001 Census of Agriculture indicates that since 1996 the number of farms has declined almost 11%.<sup>4</sup>

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<sup>1</sup> According to the two-digit Standard Industrial Classification (SIC).

<sup>2</sup> See Government of Canada (undated). Services to agriculture include distribution, retail, and food service industries up-stream of the agriculture and the agri-food industries. Examples include agri-food wholesale sector (which includes grain elevators), food supermarkets, and restaurants and taverns. See Agriculture and Agri-food Canada online information. Available at: <http://www.agr.gc.ca/cb/apf/pdf/Overview-e.pdf> for more details.

<sup>3</sup> After the United States and France (WTO 2001).

<sup>4</sup> See Canadian farm operations in the 21st century [Online]. Available at: <http://www.statcan.ca/english/agcensus2001/first/farmop/toc.htm>.

Farm operations with gross receipts below Can\$100,000 are showing the fastest rate of departure. New operators are still entering the sector, and farms that have remained in business since 1996 have generally expanded their production, with higher average crop area or livestock numbers per farm.

11. The census showed that wheat is still the dominant crop with nearly one third of the total field crop area. However, legislative changes in 1995 that phased out subsidies under the Western Grain Transportation Act increased farmers' grain transportation costs, and have encouraged shifts to other products. The area of land planted to oilseeds has increased most, and now accounts for 16% of national crop area. Pulse crops (dry field peas, lentils, and beans), as well as potatoes and grain corn are also up noticeably. Farmers also reported record levels of both beef cattle and hogs in 2001.

12. Due to adverse weather conditions in some areas during the 2001 growing season, particularly drought, crop production in the August 2001-July 2002 crop year declined for many farm operations. However, sales were supported both by strong carry-in stocks and by price increases caused by drought-induced shortages. Farmers' net income increased in 2001 relative to the previous year and the 1996-00 five-year average, mainly because of near-record programme payments, which reached Can\$3.75 billion in 2001.<sup>5</sup> The increase also reflected an accumulation of payments by the Canadian Wheat Board (see section (v) below) in that year.

13. In June 2002, the Government announced a package of up to Can\$8.2 billion in new spending over five years on the agri-food sector, with a proposed 60/40 cost sharing between the Federal Government and the provinces.<sup>6</sup> The new spending includes Can\$5.2 billion in federal funding to implement the Agricultural Policy Framework (APF), a federal-provincial-territorial initiative being developed with the industry to help the sector increase profitability, meet consumer demands for food safety, food quality, and respect for the environment, and better respond to global competition.<sup>7</sup> According to the authorities, a significant number of the measures will be "green box" measures. Progress in the current round of WTO negotiations has been described by the Government as critical for the success of the APF. Canada's objectives in these negotiations are described in Chapter II.

## **(ii) Main forms of support**

14. In the WTO, Canada committed to reducing its total Aggregate Measurement of Support (AMS) from Can\$5.2 billion in 1995, and to Can\$4.3 billion by 2000; Canada's AMS is capped at that level thereafter. Canada has notified the domestic support provided to producers only until 1999, thus precluding an analysis of current support.<sup>8</sup> In 1999, notified total domestic support to producers was about Can\$3.8 billion; Can\$ 1.75 billion was notified as "green box" measures and Can\$939 million as support forming the Current Total AMS, much below Canada's legally binding WTO ceiling. Aggregate domestic support within *de minimis* levels was Can\$1.1 billion in 1999. In total, Canada's trade-distorting domestic support, known as "amber" under WTO terminology, was thus Can\$2 billion in 1999 (*de minimis* plus Current Total AMS).

15. Canada's farm support is low in absolute terms in comparison with other OECD members; at 0.7% of GDP, total support to agriculture in Canada is about half the OECD average.<sup>9</sup> Since the

<sup>5</sup> Provincial Farm Income Forecast for 2001 and 2002. Available online at: [http://www.agr.gc.ca/spb/fiap/publication/forecast/forfst\\_e.html](http://www.agr.gc.ca/spb/fiap/publication/forecast/forfst_e.html).

<sup>6</sup> News Release, 20 June 2002. Available online at: <http://www.agr.gc.ca/cb/news/2002/n20620ae.html>.

<sup>7</sup> Further details available at <http://www.agr.ca/puttingcanadafirst>.

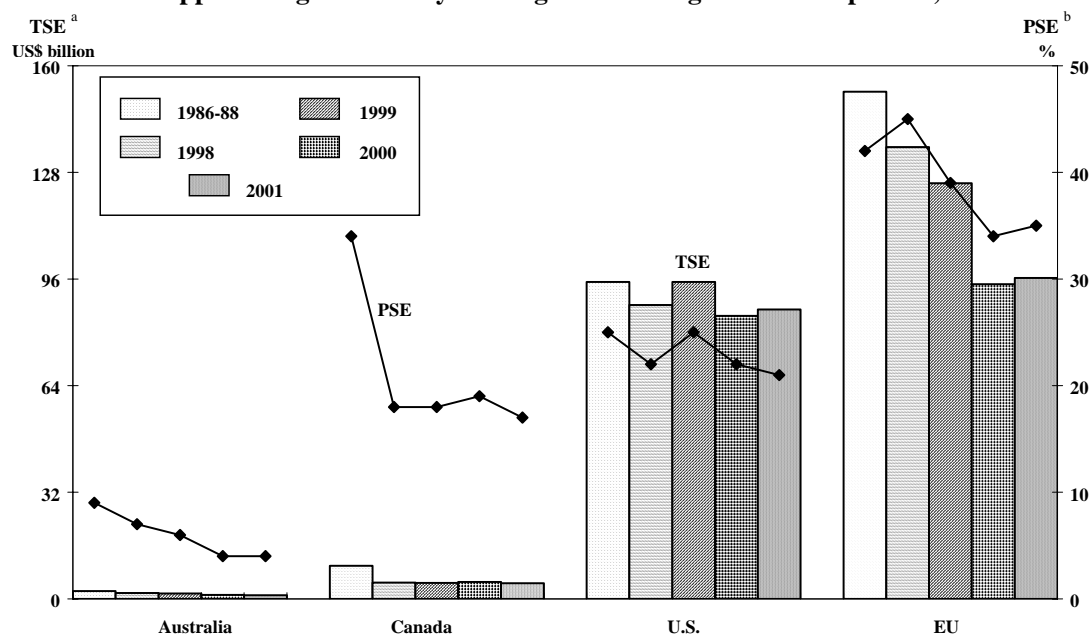
<sup>8</sup> WTO document G/AG/N/CAN/49, 22 November 2002.

<sup>9</sup> OECD (2002a).

early 1990s, Canada has moved away from commodity-specific support towards whole-farm income safety nets for farmers. The Producer Support Estimate (PSE) relative to farm receipts decreased from 18% in 1999 to 17% in 2001 (Chart IV.1), compared with an OECD average of 31% in 2001. Expressed in value terms, the PSE was estimated at Can\$6.1 billion for 2001. Gross farm receipts, according to OECD estimates, were on average 22% higher than they would have been without any support in 1999-01, a considerable improvement from the 51% recorded in 1986-88.

**Chart IV.1**

**Estimates of support to agriculture by the largest OECD agricultural exporters, 1986-01**



a Total support estimate (producer, general services, and consumer support) expressed at 1998 prices using U.S. GDP deflator.

b Producer support estimate as a share of gross farm receipts.

Source: OECD (2002).

16. Federal and provincial government expenditures in support of the agri-food sector amounted to almost Can\$6.2 billion in 2001/02 (Chart IV.2).<sup>10</sup> The data reflect expenditures of different departments such as Agriculture and Agri-Food Canada, Health Canada, Transport, and Finance. They include charges associated with the day-to-day operations of the various programmes, any capital expenditure, and the expenses under the programmes themselves.

17. Canada's "safety net" programmes include such programmes as the Net Income Stabilization Account (NISA), crop insurance (see below), and the income stabilization programmes at the provincial level. Most of these payments have been notified to the WTO as "amber". Approximately Can\$2.5 billion was paid out as income support and stabilization by the Federal Government and the provinces in 2001/02. The dairy subsidy (Can\$28 million in gross payments in 2001/02), which is product-specific, was eliminated in February 2002.

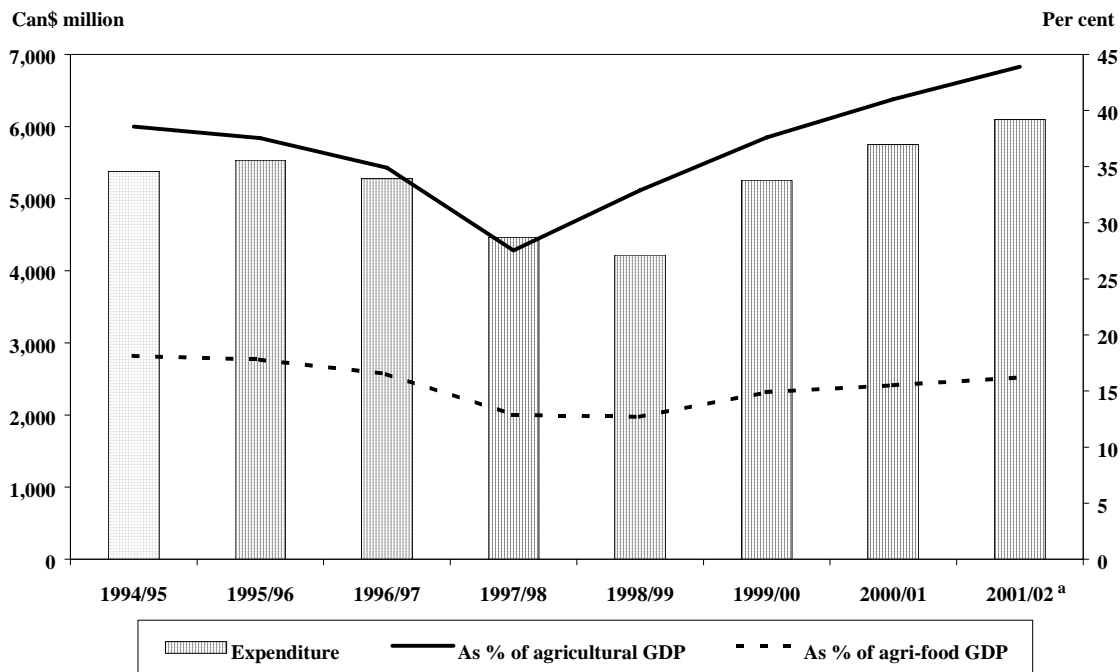
18. Payments under crop insurance programmes (Can\$451 million in 2001/02) include government premiums paid to crop insurance funds and administration fees for the management of the programmes. Such payments have been notified as non-product-specific amber support. Ad hoc and

<sup>10</sup>The data presented in this section draws mostly on Agriculture and Agri-food Canada (2002).

cost reduction expenditures (e.g. artificial insemination, land rental assistance) are also generally notified as non-product-specific amber support.

#### Chart IV.2

##### Government expenditure in support of the agri-food sector, 1994-02



<sup>a</sup> Estimate.

Source: Agriculture and Agri-Food Canada (2002), "Farm Income, Financial Conditions and Government Assistance", *Data Book* [Online]. Available at: [http://www.agr.gc.ca/spb/fiap/publication/databook/2002/db2002\\_e.htm](http://www.agr.gc.ca/spb/fiap/publication/databook/2002/db2002_e.htm).

19. Grants and contributions are also disbursed towards food-aid and support paid to international agricultural organizations. Also included in this category is the forgiveness of international aid debts. Total payments under international development and food aid programmes amounted to Can\$327 million in 2001-02.

20. Total payments under marketing and trade programmes amounted to Can\$81 million in 2001-02. This category includes grants for activities related to product promotion, and product and market development. It also takes into account debt service reduction and/or reduction of the foreign debt owed to the Canadian Wheat Board (CWB) and renegotiated at the Paris Club.

21. Tax expenditures, including fuel tax rebates, and property tax rebates, are extended exclusively by three provincial administrations (Saskatchewan and Alberta, and to a lesser extent Quebec) and totalled about Can\$430 million in 2001/02. These are notified to the WTO to the extent that they provide support to agricultural producers.

22. Other forms of assistance include loan defaults under loan guarantee programmes such as the Agricultural Marketing Programs Act (AMPA) of 1997. The AMPA provides producers with cash

advances at harvest, some of which is interest free.<sup>11</sup> Financing assistance also includes the Farm Improvement and Marketing Cooperatives Loans Act and interest rebate programmes such as the Spring Credit Advance Program.

23. Price support is relied upon mainly for milk in the dairy sector, which is the most heavily supported agri-food activity. Unlike output payments, price support does not weigh on budgetary expenditure, as it is mostly borne by consumers: in 2001, the producer price for milk was close to double the world price. The target price for industrial milk increased by 2.3% in February 2001, and 3% in 2002. Support prices for butter and skim milk powder were increased by 3.4% in February 2001, and by 3% in February 2002. According to the OECD, the dairy sector "stands out as one where there has been no progress towards market orientation".<sup>12</sup> According to the authorities, there has been a modest increase in the dairy sector's market orientation following the removal of the dairy subsidy (see above) and the deregulation of the market for commercial export milk (see section (iv) below).

24. In the case of table eggs, the price that grading stations pay producers is negotiated by the provincial commodity boards, while the national agency sets the price it pays the grading stations for industrial eggs (surplus to table eggs market) through a cost-of-production formula. In the case of chicken and turkey, the provincial boards negotiate live chicken and turkey prices with the processors, taking into account producer input costs, supply and demand, storage stocks, and the price of competing meats.

### **(iii) Tariff quotas**

25. The production of dairy products, chicken, turkey, eggs and broiler hatching eggs is "supply-managed" by federal and provincial marketing boards and producer associations, with the objective of matching total supply to domestic demand. Producers must buy production quotas in order to participate in the domestic market. Supply-managed commodities account for about 25% of total farm cash receipts.

26. The effectiveness of the system is dependent on import restrictions, which consist mostly of prohibitive out-of-quota tariffs under the tariff-quota system. Under this mechanism, a generally low duty is levied on imports up to a certain quantity, while imports beyond that level are subject to another, often prohibitive, rate of duty. In accordance with Canada's Uruguay Round commitments, 21 tariff quotas restrict imports of mainly supply-managed commodities – dairy products, eggs, turkeys, chickens and products thereof – and to a lesser extent beef, margarine, wheat and barley, and their products (Table IV.1).

27. Since Canada's last Review in 2000, applied out-of-quota MFN tariffs have been reduced on about 60 tariff lines, mostly in cereal preparations (HS codes 19, 22 and 23), on average by 3%. Despite these reductions, tariffs remain in the 200-300% range for most dairy products. The out-of-quota duty in 2002 ranged from 49% to 77% for wheat, and was 95% on barley. The authorities noted that the fill rates of Canada's tariff quotas for wheat, barley, and barley products remain low due to the competitiveness of Canada as a producer and exporter of these products, and that therefore these tariffs do not represent a barrier to trade. They also noted that a number of wheat products imported in small packages face the in-quota tariff without limit, on an MFN basis.

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<sup>11</sup> For more details, see Agri-food Canada online information. Available at: [http://www.agr.gc.ca/progser/ampa\\_e.phtml](http://www.agr.gc.ca/progser/ampa_e.phtml).

<sup>12</sup> OECD (2002).

Table IV.1

Tariff quotas, fill rates and their respective administration methods, 2002 or latest available year

Product description <sup>a</sup>	Out-of-quota tariff, 2002	In-quota tariff, 2002	Final tariff quota <sup>b</sup>	2001 fill rate %
<b>1. "Historical importers": importers' shares are allocated principally in relation to past imports</b>				
<b>Concentrated/condensed milk/cream</b>			<b>12 (reserved for Australia)</b>	<b>100</b>
0402.91.10	259% but not less than 78.9¢/kg.	2.84¢/kg.		
0402.99.10	255% but not less than 95.1¢/kg.	2.84¢/kg.		
<b>Yoghurt</b>			<b>332</b>	<b>100</b>
0403.10.10	237.5% but not less than 46.6¢/kg	6.5%		
<b>Powdered buttermilk</b>			<b>908 (reserved for New Zealand)</b>	<b>100</b>
0403.90.11	208% but not less than Can\$2.07/kg.	3.32¢/kg.		
<b>Cheese</b>			<b>20,412 (13,472 reserved for EU)</b>	<b>100</b>
0406.10.10, 0406.20.11, 0406.20.91, 0406.30.10, 0406.40.10, 0406.90.11, 0406.90.21, 0406.90.31, 0406.90.41, 0406.90.51, 0406.90.61, 0406.90.71, 0406.90.81, 0406.90.91, 0406.90.93, 0406.90.95, 0406.90.98	245.5% but not less than Can\$3.53-5.78/kg.	2.84 - 3.32¢/kg.		
<b>Ice cream</b>			<b>484</b>	<b>90</b>
2105.00.91	277% but not less than \$Can1.16/kg.	6.5%		
<b>2. Licences or shares allocated to downstream users</b>				
<b>Beef and veal</b>			<b>76,409 (35,000 reserved for Australia, 29,600 for New Zealand)</b>	<b>100</b>
0201.10.10, 0201.20.10, 0201.30.10, 0202.10.10, 0202.20.10, 0202.30.10	26.5%	0		
<b>Cream</b>			<b>394</b>	<b>100<sup>c</sup></b>
0401.30.10	292.5% but not less than Can\$2.48/kg.	7.5%		
<b>Dry whey</b>			<b>3,198</b>	<b>100<sup>c</sup></b>
0404.10.21	208% but not less than Can\$2.07/kg	3.32¢/kg.		
<b>Other products of milk constituents</b>			<b>4,345</b>	<b>100</b>
0404.90.10	270% but not less than Can\$3.15/kg.	6.5%		
<b>Other dairy</b>			<b>70</b>	<b>100</b>
1901.90.33	250.5% but not less than Can\$2.91/kg.	6.5%		
<b>Broiler hatching eggs and chicks</b>			<b>7,949,000 dozen</b>	<b>146</b>
0105.11.21	238% but not less than 30.8¢ each	0.86¢ each		
0407.00.11	238% but not less than Can\$2.91/dozen.	1.51¢/dozen		
<b>3. "First-come, first-served": no shares are allocated to importers. Imports are permitted entry at the in-quota tariff rates until such time as the tariff quota is filled; then the higher tariff automatically applies. The physical importation of the good determines the order and hence the applicable tariff</b>				
<b>Wheat</b>			<b>226,883</b>	<b>38<sup>c</sup></b>
1001.10.10, 1001.90.10	49%/76.5%	Can\$1.90/tonne		
<b>Barley</b>			<b>399,000</b>	<b>9<sup>c</sup></b>
1003.00.11, 1003.00.91	94.5%/21%	Can\$0.99/tonne		
<b>Wheat products</b>			<b>123,557</b>	<b>109<sup>c</sup></b>
1101.00.10	Can\$139.83/tonne	Can\$2.42/tonne		
1103.11.10	Can\$105.33/tonne	Can\$2.42/tonne		

Table IV.1 (cont'd)

Product description <sup>a</sup>	Out-of-quota tariff, 2002	In-quota tariff, 2002	Final tariff quota <sup>b</sup>	2001 fill rate %
1103.20.11	Can\$98.6/tonne plus 7%	3.5%		
1104.19.11	Can\$106.5/tonne plus 7%	3.5%		
1104.29.11	Can\$113.4/tonne plus 7%	3.5%		
1104.30.11	Can\$98.6/tonne plus 7%	3.5%		
1108.11.10	Can\$237.9/tonne	0.95¢/kg.		
1109.00.10	Can\$397.3/tonne plus 14.5%	7.5%		
1901.20.13	11.93¢/kg. plus 8.5%	4%		
1901.20.23, 1902.11.10, 1902.19.11, 1902.19.21, 1902.19.91, 1902.30.11, 1902.30.20, 1904.10.10, 1904.20.10, 1904.20.61, 1904.30.10, 1904.30.61, 1904.90.10, 1904.90.61, 1905.10.10, 1905.10.40, 1905.10.71, 1905.31.21, 1905.31.91, 1905.32.91, 1905.40.20, 1905.40.50, 1905.90.31, 1905.90.34, 1905.90.41, 1905.90.42, 1905.90.61	0-16.27¢/kg. + 0 - 8.5%	0 - 4%		
2302.30.10	Can\$98.6/tonne plus 4%	0		
<b>Barley products</b>			<b>19,131</b>	<b>50<sup>c</sup></b>
1102.90.11	Can\$213.8/tonne plus 8.5%	4%		
1103.19.11, 1103.20.21, 1104.19.21, 1104.29.21	Can\$15.9-177.5/tonne + o - 8.5%	3 - 4%		
1107.10.11	Can\$157/tonne	0.31¢/kg.		
1107.10.91	Can\$160.1/tonne	0.47¢/kg.		
1107.20.11	Can\$141.5/tonne	0.31¢/kg.		
1107.20.91	0	0		
1108.19.11	Can\$188.5/tonne	0.83¢/kg.		
1901.90.11	Can\$19.78/tonne plus 17%	8.5%		
1904.10.30	12.6¢/kg. plus 8.5%	4%		
1904.20.30	9.95¢/kg. plus 8.5%	4%		
1904.20.63	9.95¢/kg. plus 6%	3%		
1904.90.30	9.95¢/kg. plus 8.5%	4%		
1904.90.63	9.95¢/kg. plus 6%	3%		
2302.40.11	Can\$106.9/tonne	0%		
<b>4. Licences on demand</b>				
<b>Margarine</b>			<b>7,558</b>	<b>15</b>
1517.10.10	82.28¢/kg.	7.5%		
1517.90.21	218% but not less than Can\$2.47/kg.	7.5%		
<b>5. Applied tariff (Personal cross-border purchases)</b>				
<b>Fluid milk</b>			<b>64,500</b>	<b>n.a.</b>
0401.10.10	241% but not less than Can\$34.5/hl	7.5%		
0401.20.10	241% but not less than Can\$34.5/hl	7.5%		
<b>6. Import shares allocated entirely to one state trading entity</b>				
<b>Butter and other fat derived from milk</b>			<b>3,274 (2000 reserved for New Zealand)</b>	<b>100<sup>c</sup></b>
0405.10.10	298.5% but not less than Can\$4/kg.	11.38¢/kg.		
0405.90.10	313.5% but not less than Can\$5.12/kg.	7.5%		
<b>7. Combination of methods</b>				
<b>Eggs and egg products</b>			<b>21,370,000 dozen</b>	<b>94</b>
0407.00.18	163.5% but not less than 79.9¢/dozen	1.51¢/dozen		
0408.11.10, 0408.19.10 0408.91.10, 0408.99.10	Can\$1.52 - 6.12/kg.	6.63¢/kg or 8.5%		
2106.90.51	Can\$1.45/kg.	6.68¢/kg.		
3502.11.10	Can\$6.12/kg.	8.5%		

Table IV.1 (cont'd)

Product description <sup>a</sup>	Out-of-quota tariff, 2002	In-quota tariff, 2002	Final tariff quota <sup>b</sup>	2001 fill rate %
3502.19.10	Can\$1.52/kg.	6.63¢/kg.		
<b>Turkey, live, meat and products</b>			<b>5,588</b>	<b>99</b>
0105.99.11, 0207.24.11, 0207.24.91, 0207.25.11, 0207.25.91, 0207.26.10, 0207.27.11, 0207.27.91, 0209.00.23, 0210.99.14, 1601.00.31, 1602.20.31, 1602.31.12, 1602.31.93	154.5 – 169.5% but not less than 0 - Can\$6.18/kg.	0 - 7.5% but not less than 0 - 4.74¢/kg or more than 9.48¢/kg		
<b>Chicken, live, meat and products</b>			<b>39,844</b>	<b>164</b>
0105.92.91, 0105.93.91, 0207.11.91, 0207.12.91, 0207.13.91, 0207.14.21, 0207.14.91, 0209.00.21, 0210.99.11, 1601.00.21, 1602.20.21, 1602.32.12, 1602.32.93	238 – 253% but not less than Can\$ 0– 6.74/kg.	0 - 7.5% + 0 - 4.74¢/kg or more than 9.48¢/kg		
<b>8. No access allocated</b>			<b>0</b>	<b>n.a.</b>
<b>Milk, cream and buttermilk powder</b>				
0402.10.10	201.5% but not less than Can\$2.01/kg	3.32¢/kg.		
0402.21.11	243% but not less than Can\$2.82/kg.	3.32¢/kg.		
0402.21.21	295.5% but not less than Can\$4.29/kg.	6.5%		
0402.29.11	243% but not less than Can\$2.82/kg.	3.32¢/kg.		
0402.29.21	295.5% but not less than Can\$4.29/kg.	6.5%		
0403.90.91	216.5% but not less than Can\$2.15/kg.	7.5%		
0405.20.10	274.5% but not less than Can\$2.88/kg.	7%		
<b>Chocolate ice cream, mixes and doughs containing butter, food preparations containing dairy products</b>				
1806.20.21	265% but not less than Can\$1.15/kg.	5%		
1806.90.11	265% but not less than Can\$1.15/kg.	5%		
1901.20.11	246% but not less than Can\$2.85/kg.	4%		
1901.20.21	244% but not less than Can\$2.83/kg.	3%		
1901.90.31	267.5% but not less than Can\$1.16/kg.	6.5%		
1901.90.51	267.5% but not less than Can\$1.16/kg.	6.5%		
1901.90.53	250.5% but not less than Can\$2.91/kg.	6.5%		
2106.90.31	212% but not less than Can\$2.11/kg.	5%		
2106.90.33	212% but not less than Can\$2.11/kg.	5%		
2106.90.93	274.5% but not less than Can\$2.88/kg.	7%		
2202.90.42	256% but not less than Can\$36.67/hl	7.5%		
2309.90.31	205.5% but not less than Can\$1.64/kg.	2%		

n.a. Not applicable.

a In-quota HS Codes.

b Tonnes unless otherwise specified.

c Marketing year 2000-01 (1 August to 31 July).

Sources: WTO Secretariat, based on Canada's Consolidation of the Customs Tariff 2002, and on data from the Import and Export Control Bureau, and the Department of Foreign Affairs and International Trade.

28. For certain products with high out-of-quota rates, free-trade partners and, for some products, partners receiving unilateral preferential tariff treatment, benefit from significant margins of tariff preference. For example in the case of wheat and barley, operators from certain free-trade partners (notably Chile, Mexico and the United States) can potentially ship to Canada unlimited quantities duty free (subject to origin requirements), and are therefore not affected by the tariff-quota system. In the case of bovine meat, all imports enter duty free from Chile, Commonwealth Caribbean countries, Costa Rica, Mexico, and the United States compared with an MFN tariff of 27% (however, bovine meat may not be imported from Chile or Mexico due to SPS concerns, see Chapter III(2)(vii)). All imports of margarine enter duty free when originating in Chile or Mexico (but not the United States), while the MFN tariff is 218% but not less than Can\$2.47 per kg.

29. Five of Canada's 21 tariff quotas include reserved access in favour of three trading partners at the in-quota rate (Table IV.1). In addition, the entire quota for fluid milk is reserved for personal cross-border purchases (i.e. in practice from the United States). Accordingly, importers must ensure that their supplies originate in the countries with reserved access to the extent of the guaranteed share, which limits the available access for all other WTO Members.

30. The in-quota volume scheduled under the WTO Agreement on Agriculture is in many cases small. Moreover, for certain dairy products, such as skim milk powder, there is no in-quota access commitment at all: Canada specified in-quota and out-of-quota rates of duty but no quota volumes (see Table IV.1, item 7). The authorities have noted that, in practice, the products affected do in some cases enter Canada at the in-quota rate under supplementary import permits, for example when temporary domestic shortages occur, or when the imported products are destined for re-export.

31. There have been no major changes in tariff-quota administration since the last Review of Canada in December 2000. Tariff quotas are administered in a variety of methods, such as first-come, first-served at the border, licences on demand, and on the basis of the past performance of the applicants, their market share or on the basis of equal share. Some are restricted to downstream users (e.g. dry whey, concentrated or condensed milk – see Table IV.1). Hatching eggs and chicks are allocated to federally registered hatcheries on the basis of the number of chicks hatched by them in a 12-month period preceding the allocation. The entire tariff quota for butter is allocated to the Canadian Dairy Commission.

32. Overall, Canada's tariff quotas have been characterized by high fill rates. However, tentative estimates by the WTO Secretariat suggest that, for a number of dairy and poultry products subject to tariff quotas, imports account for less than 5% of domestic consumption.<sup>13</sup> This could change if Canada's proposal for tariff-quotas to provide duty-free access for a common minimum percentage of current consumption on a product basis is successful.<sup>14</sup>

#### **(iv) Export support**

33. Export subsidies were scheduled by Canada under the WTO Agreement on Agriculture for 11 product groups comprising cereals, oilseeds, dairy products, and vegetables, and were made subject to distinct reduction commitments. Canada's latest WTO export subsidy notification was made in March 2001 for the year 1999/00.<sup>15</sup> As in the three previous years, Canada notified no subsidies for any of the scheduled products, with the exception of dairy products.

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<sup>13</sup> Such products include butter, cream, powdered whey, cheese, ice cream, milk powder, yoghurt, eggs, and turkey. Shares based on consumption and import volumes. More rigorous estimates of imports as a share of domestic consumption would require consumption data not available to the Secretariat.

<sup>14</sup> WTO document G/AG/NG/W/63, 28 November 2000.

<sup>15</sup> WTO document G/AG/N/CAN/41, 14 March 2001.

34. The issue of whether Canada provides dairy export subsidies in excess of commitment levels has been under legal challenge at the WTO since 1997. A panel examined the pricing system whereby the Canadian Dairy Commission delivered permits to provincial marketing boards for the sale of milk to dairy processors and exporters at prices below the levels otherwise available in Canada. The Panel found in 1999 that this system constituted an export subsidy and, thus, concluded that dairy exports provided through Special Milk Classes 5(d) and (e) were subject to Canada's export subsidy reduction commitments.<sup>16</sup>

35. To comply with the recommendations of the Panel, the Special Milk Class 5(e) was eliminated and exports under 5(d) were restricted to Canada's export subsidy commitment levels. In addition, Canada introduced a new category of milk for export processing known as commercial export milk (CEM). Under contracts concluded in advance of production, Canadian producers can sell any quantity of CEM to Canadian processors for export processing on terms and conditions freely negotiated between the producer and the processor. About 40% of producers have chosen to produce and sell CEM since it became available in August 2000.

36. The original Panel reconvened in 2001 to consider a new complaint that Canada's new mechanism was WTO-inconsistent. The Panel concluded in 2001 that Canada, through the CEM scheme and the continued operation of Special Milk Class 5(d), had been providing export subsidies for cheese in excess of its quantity commitment levels specified in its Schedule.<sup>17</sup> Canada appealed and the Appellate Body partially reversed the Panel's findings, but declared itself unable to complete the analysis of all the claims against Canada.<sup>18</sup>

37. The United States and New Zealand requested a second Article 21.5 panel regarding this case, which was established by the DSB on 18 December 2001. This Panel found that the CEM scheme and the continued operation of Special Milk Class 5(d) constituted export subsidies in excess of the quantity commitments in Canada's Schedule, a finding that was confirmed by the WTO Appellate Body in December 2002.<sup>19</sup>

**(v) State trading and other marketing arrangements**

38. Canada's two main state-trading enterprises operating in the agriculture sector are the Canadian Wheat Board (CWB) and the Canadian Dairy Commission (CDC). The CWB, Canada's largest state-trading enterprise by sales, groups over 100,000 producers of wheat, durum, and barley in Western Canada. Producers in Western Canada wishing to sell wheat or barley for human consumption, domestically or for export, must do so through the CWB. Individual producers determine the volume offered for sale to the CWB. However, the CWB may prorate the total volume offered across all producers. There are penalties if the producer delivers less than or more than a certain percentage of the contract volume.

39. The CWB has exclusive authority to export all wheat, durum wheat, and barley, and markets domestic milling-quality wheat and malting barley produced in Western Canada. The CWB therefore accounts for almost all of Canada's wheat and barley exports. Of the 25 to 30 million tonnes of wheat or barley produced annually in Canada, on average 60% to 70% has been exported by the CWB. Marketing to over 70 countries world-wide, the CWB is the world's largest wheat and barley exporting organization. On average the CWB has about 20% of the world market share in wheat, 65% of durum wheat, 30% of malting barley, and 15% of feed barley. The value of its export sales (Can\$4.2 billion in 2000-01) makes the CWB one of Canada's top five exporters. CWB's largest

<sup>16</sup> WTO documents WT/DS103/R, 17 May 1999 and WT/DS103/AB/R, 13 October 1999.

<sup>17</sup> WTO document WT/DS103/RW, 11 July 2001.

<sup>18</sup> WTO document WT/DS103/AB/RW, 3 December 2001.

<sup>19</sup> WTO documents WT/DS103/RW2, 26 July 2002, WT/DS103/AB/RW2, 20 December 2002.

export markets for wheat in 2000-01 were Iran (1.65 million tonnes), the United States (1.45 million tonnes), Algeria (1.35 million tonnes), and Mexico (1.16 million tonnes).<sup>20</sup>

40. The CWB administers a number of support programmes on behalf of the Government of Canada; these include advance payment programmes for wheat and barley, and the leasing of hopper cars to transport Prairie grain. Costs associated with these activities have been notified as "amber" subsidies in Canada's WTO domestic support notification.<sup>21</sup> The Government of Canada guarantees the CWB's initial payments to producers. This may involve direct financial transfers from the Government when the producer pool accounts go into deficit. This has not occurred since the 1990/91 crop year.

41. Under Canada's export credit guarantee programmes, the Government guarantees repayment to the CWB of the principal and interest of all credit receivables. Sales to sovereign buyers take place under the Credit Grain Sales Program, whilst sales to private importers take place under the Agri-food Credit Facility. During 2000-01, credit sales totalled Can\$521 million, representing 12.3% of total sales, down from Can\$703 million, or 15.6%, of sales in the previous year.

42. In some cases overdue accounts are rescheduled or the principal owed by a debtor country is reduced. At 18 September 2002, the balance receivable under the Credit Grain Sales Program was Can\$6.75 billion. Of this amount, Can\$5.7 billion represented receivables for which payments of principal and interest had been rescheduled over periods ranging from five to 25 years under terms agreed to by the Government of Canada. The forgiveness or reduction of the debt owed to the CWB and renegotiated at the Paris Club, is accounted for as grants and contributions in Canada's Public Accounts.

43. Federal government guarantees allow the CWB to borrow money to finance its operations at "lower rates of interest than any private sector company of comparable size and credit worthiness".<sup>22</sup> This results in savings for western Canadian farmers. Certain WTO Members have noted the preferential financing conditions enjoyed by the CWB, considering that government backing conferred the CWB an unfair competitive advantage in world wheat markets.<sup>23</sup>

44. The CDC has, among other things, the power to "purchase any dairy product and package, process, store, ship, insure, import, export or sell or otherwise dispose of any dairy product purchased by it".<sup>24</sup> The CDC has a de facto monopoly on the importation of butter under the tariff quota system (see section (iv) above). For 2000/01 as for previous years, the entire import quota for butter was allocated to the Canadian Dairy Commission to resell to further processors.

45. The CDC, acting as the representative for the Federal Government, chairs a provincial government/industry committee where national production targets for industrial milk production are agreed. The CDC, in consultation with the industry, supports market prices for butter and skim milk powder through a target return for producers and a target processor margin. These targets are supported by programmes that remove surplus supplies of these products from the market and (until 2002) by a direct federal government payment to producers. The price of a milk quota is determined in 1 kg. increments of butterfat production/day; in 2000/01, it ranged from Can\$9,700 to Can\$18,750 per dairy cow depending on the province. Production quotas therefore represent a large initial investment in establishing a dairy farm that serves the domestic market.

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<sup>20</sup> Canadian Wheat Board online information. Available at: <http://www.cwb.ca>.

<sup>21</sup> WTO document G/AG/N/CAN/43, 14 June 2001.

<sup>22</sup> Canadian Wheat Board online information. Available at: <http://www.cwb.ca/aboutcwb/general/general.htm>.

<sup>23</sup> WTO document WT/TPR/M/78, 5 February 2001.

<sup>24</sup> WTO document G/STR/N/2/CAN, 19 August 1996.

46. For chicken, turkey, eggs and broiler hatching eggs, national producer agencies set the annual production quota in collaboration with provincial marketing boards and industry participants.

### **(3) TEXTILES AND CLOTHING**

#### **(i) Introduction**

47. Canada's textiles sector in 2001 accounted for 1.3% of Canadian manufacturing GDP and 2.5% of manufacturing employment.<sup>25</sup> Clothing accounted for a further 2% of total manufacturing GDP and 4.4% of manufacturing employment. Clothing production takes place mostly in Quebec (55% of employment in 2001), and Ontario (28%). The clothing industry and, to a lesser extent, the textiles industry are characterized by small sized establishments, a heavy reliance on women and immigrant workers, low levels of workforce education, and a high degree of out-sourcing.

48. Partly reflecting these specificities, the Canadian textiles and clothing (T&C) industries have benefited from a variety of import protection measures and adjustment assistance over the past quarter-century. The main measures are reviewed in this section, as well as recent market developments.

49. After a substantial contraction during 1990-95, employment in the T&C increased during 1995-00 mainly due to the general economic expansion in North America (Table IV.2). In 2001, both employment and shipments declined by nearly 5.2%. Imports continued to advance, resulting in a further increase in the share of domestic consumption that is met by imports. Over 1995-01, this share increased considerably for both textiles and clothing. Canada's largest clothing suppliers are China and the United States with shares of 24% and 15% of total imports, respectively. The only least developed country (LDC) in Canada's top ten suppliers is Bangladesh, with 3% of overall Canadian imports of clothing.

50. The continuing loss of market share by domestic textiles and clothing manufacturers is being offset somewhat by their emphasis on export market development. In 2001, exports amounted to one half of all textiles shipments, nearly twice the rate recorded in 1995. The United States continues to be Canada's main export market, accounting for some 93% of Canadian textiles exports. In 2001, Canada's textiles trade deficit fell to Can\$2.8 billion, with the United States accounting for 31% of the deficit.

51. Clothing exports more than doubled over 1995-01. The United States is the destination of 96% of Canadian clothing exports. According to the authorities, this heavy export reliance poses a limited problem for Canadian suppliers once U.S. import quotas are fully dismantled, because Canadian suppliers concentrate on niche markets that are not in direct competition with products currently subject to quota in the United States. Overall, Canada continues to have a substantial trade deficit in clothing of Can\$2.9 billion in 2001.

#### **(ii) Trade policy developments**

52. The textiles and clothing industries are facing growing international competitive pressures, direct and indirect, as Canada continues to gradually liberalize trade in these sectors. Trade policy commitments include lower MFN tariffs under GATT 1994, under a ten-year schedule that will end in January 2004 (Table IV.3). While these tariffs will remain in 2004 on average twice the level of

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<sup>25</sup> Canada's manufacturing sector accounts for 15% of total employment, and 17% of total value added (See Statistics Canada at <http://www.statcan.ca/english/lgdb/econ41.htm>). Tariffs in manufacturing average around 7% (see also Charts III.1 and III.3).

Canada's average tariffs, it is possible that they will not suffice to protect the industry from import competition, given that import unit values for these types of products frequently represent a small fraction of their retail price.

**Table IV.2**  
**Textiles and clothing industries, selected indicators 1990-01**

	1990	1995	1999	2000	2001
Employment (No. of workers)					
- Textiles	35,300	28,100	53,300	54,700	48,300
- Clothing	103,400	81,100	70,744	93,152	88,267
Shipments (Can\$ billion)					
- Textiles	5.0	5.6	6.4	6.4	6.8
- Clothing	6.8	6.6	6.8	7.4	7.0
Value added (Can\$ billion)					
- Textiles	2.1	2.5	3.1	..	..
- Clothing	3.6	3.5	3.8	..	..
Imports <sup>a</sup> (Can\$ billion)					
- Textiles	2.9	4.8	6.3	6.5	6.2
- Clothing	2.4	3.3	4.7	5.3	5.9
Exports <sup>a</sup> (Can\$ billion)					
- Textiles	1.0	2.1	3.2	3.4	3.5
- Clothing	0.2	1.2	2.7	3.0	3.0
Exports <sup>b</sup> /shipments					
- Textiles	16%	25%	43%	46%	45%
- Clothing	5%	20%	40%	41%	42%
Imports <sup>b</sup> /consumption <sup>c</sup>					
- Textiles	36%	49%	57%	59%	63%
- Clothing	31%	41%	54%	55%	59%

.. Not available.

a Exports and imports calculated by HS.

b Exports and imports calculated by NAICS (SIC for 1990 data).

c Shipments plus imports minus exports.

Source: WTO Secretariat, based on information from Industry Canada.

**Table IV.3**  
**Average tariff rates for textiles and clothing, 2000 and 2002**  
(Per cent)

Category	MFN	U.S.	Mexico	GPT	LDCT	CIAT <sup>a</sup>	CT <sup>b</sup>
Textiles (321)							
1998	11.1	0.0	5.7	9.7	8.5	0.0	5.7
2000	10.0	0.0	2.2	8.8	7.0	0.0	2.2
2002	9.2	0.0	0.2	8.2	6.5	0.0	0.2
2004	8.5 <sup>c</sup>	0.0	0.0	8.2 <sup>d</sup>	0.0 <sup>e</sup>	0.0	0.2
Clothing (322)							
1998	17.2	0.0	8.9	16.1	14.5	0.1	8.8
2000	16.1	0.0	5.3	15.1	13.3	0.0	5.2
2002	15.1	0.0	1.5	14.2	12.5	0.0	1.5
2004	14.0 <sup>c</sup>	0.0		14.2 <sup>d</sup>	0.0 <sup>e</sup>	0.0	

a Canada-Israel Agreement tariff.

b Chile tariff.

c Estimated.

d Assuming no further reduction.

e LDC Market Access Initiative, 1 January 2003.

Source: WTO Secretariat, based on data provided by the Government of Canada.

53. Duty remission programmes of 1998 remain in place, allowing eligible clothing manufacturers to import certain quantities of clothing or fabrics duty free to complement product lines they make in Canada. Products covered include outerwear fabrics, shirting fabrics, outerwear clothing, blouses, shirts and co-ordinates. They are designed to help Canadian clothing and fabric manufacturers face the pressures of increased import competition. Only producers who received benefits in 1995 under the predecessor Orders are eligible. Remission totalled Can\$32 million in 2001. These duty remission programmes expire on 31 December 2004.

54. Since the 1960s, tariffs have been complemented by import quotas, which are being progressively dismantled over a ten-year period until 31 December 2004 under the WTO Agreement on Textiles and Clothing (ATC). In January 2001, Canada communicated the list of textile and clothing products that were integrated into WTO rules on 1 January 2002, as part of the third phase of integration foreseen by the ATC. This corresponded to 18.2% of 1990 import volumes. The products selected for integration consist of made-up textile products (7.8%), clothing products (3.8%), fabrics (1.12%), and tops and yarns (5.5%).<sup>26</sup> The authorities noted that none of the partially liberalized or combined quotas were readjusted, which also provided further access to the Canadian market. Nevertheless, as was the case with the first two phases, the most sensitive clothing products have been left for the end of the implementation period. In contrast with clothing, imports of yarns and made-up textiles under quota accounted for less than 5% of total imports in 1990, and over 85% of fabrics were imported free of quota that year. Under the ATC, Canada is committed to integrating all remaining products by 31 December 2004, thus removing all import quotas on these products by that date.

55. In early 2002, following China's WTO accession, Canada notified the WTO of the quota arrangements for 2002 set out in its bilateral restraint agreement with the Chinese Government.<sup>27</sup> A similar procedure was followed with Chinese Taipei.<sup>28</sup> Restrictions on imports of underwear from Costa Rica were to be eliminated upon entry into force of the bilateral free-trade agreement between the two countries.<sup>29</sup>

56. In 1999, some Can\$2.2 billion of clothing imports entered under quota, accounting for 52% of total clothing imports, down from 61% in 1994. In 2001, this share declined to 49%, with restrained imports valued at Can\$2.8 billion. Between 1994 and 1999, clothing imports from all sources grew by 48%, or at an annual average of 8.1%. Over the two years 2000-01, the corresponding average annual growth rate accelerated to 13.4%.

57. This acceleration reflected an increase in the value of clothing imports under quota, by nearly Can\$500 million: 7% in 2000 and 12% in 2001 (Chart IV.3). Another import growth factor was an expansion of imports of products that were never under quota, by over Can\$400 million (37% in 2000 and 13% in 2001). Imports of products for which quotas had been freed (e.g. tailored, collared shirts and working gloves) also expanded fast, by Can\$200 million. Imports from Mexico continued to advance considerably (by Can\$130 million) or 36%, but imports from U.S. suppliers stagnated at around Can\$660 million.

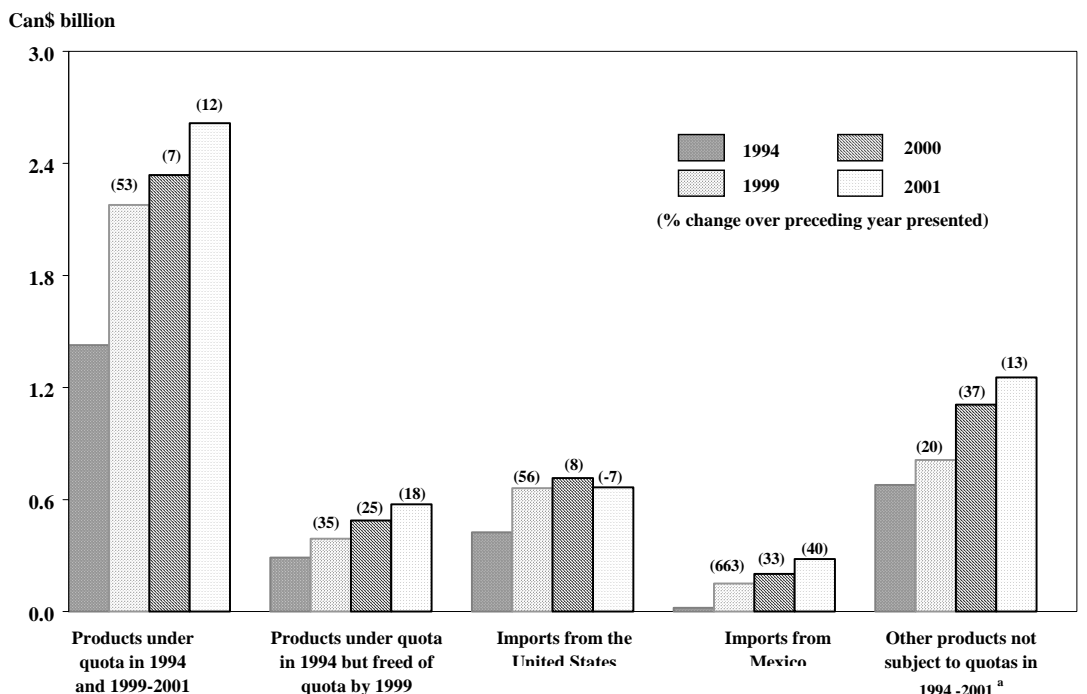
<sup>26</sup> WTO document G/L/459, 31 July 2001. See also DFAIT online information. Available at: <http://www.dfait-maeci.gc.ca/~eicb/textile/WTO%20ATC-e.htm>.

<sup>27</sup> WTO document G/TMB/N/62/Add.3/Corr.1, 15 March 2002. See also the administrative arrangements with China WTO document G/TMB/N/440, 14 June 2002.

<sup>28</sup> WTO document G/TMB/N/62/Add.4/Corr.1, 25 January 2002.

<sup>29</sup> Canada-Costa Rica Free Trade Agreement, Annex III.1. [Online]. Available at: <http://www.dfait-maeci.gc.ca/tna-nac/3.1-e.asp>.

**Chart IV.3**  
**Imports of clothing, 1994, and 1999-01**



<sup>a</sup> Imports from unrestricted suppliers other than the United States and Mexico or from restricted suppliers for products not subject to restrictions.

Source: WTO Secretariat, based on data provided by Canadian authorities.

58. In early 2002, Canada was restraining imports of textiles or clothing products from 40 trading partners including 32 WTO Members.<sup>30</sup> Countries subject to restraints include six least developed countries. Most exports from LDCs to Canada in 1999 were clothing products. These LDCs generally have low overall quota utilization rates, except for some products, where imports from Bangladesh and, to a lesser extent, from Cambodia have utilization rates above 90% (Table IV.4). Low utilization rates may be the result of supply problems that prevent partner countries from filling their quota. Imports are likely to grow through the implementation of duty-free and quota-free access for LDCs as of January 2003.

59. In general, the quota system is likely to be most limiting on exporters with high quota utilization rates. Table IV.4 lists those combinations of products and partner countries for which exports may expand most once quotas are abolished in 2005. Suppliers in some of these countries may also displace other suppliers once the quota system is dismantled.

<sup>30</sup> The countries are: Bangladesh; Brazil; Bulgaria; Cambodia; China; Costa Rica; the Czech Republic; the Dominican Republic; Hong Kong, China; Hungary; India; Indonesia; Jamaica; Laos; Lebanon; Lesotho; Macao; Malaysia; Mauritius; Myanmar; Nepal; Pakistan; Democratic People's Republic of Korea; the Philippines; Poland; Qatar; Republic of Korea; Romania; Singapore; Slovak Republic; South Africa; Sri Lanka; Swaziland; Syria; Taiwan; Thailand; Turkey; United Arab Emirates; Uruguay; and Viet Nam.

**Table IV.4**  
**Clothing restraint levels with utilization rates exceeding 90%, by country, 2001**

Country	Agreement No.	Product description	Unit	Adjusted restraint level	Utilization rate (%)
U.A.E.	08	Athletic wear	No.	10,000	94
Bangladesh	01A	Jackets	No.	1,766,315	90
	02	Winter outerwear	No.	455,110	100
	05	Trousers, overalls and shorts	No.	3,845,869	100
	05A	Of which: trousers, MBWG	No.	875,981	93
	09	Underwear	No.	8,505,054	95
Rep. of China	01A	Jackets	No.	1,736,921	98
	04B	Dresses	No.	2,853,692	97
	07/08A	Woven shirts and blouses	No.	12,633,133	90
	07/08B	Woven shirts and similar articles	No.	3,961,292	100
	05	Trousers, overalls and shorts	No.	18,127,607	98
	09	Underwear	No.	6,050,768	98
	10	Sleepwear and bathrobes	No.	5,516,143	98
	11	Sweaters	No.	3,418,933	95
	13	Foundation garments	No.	2,538,557	99
	14	Babies garments	No.	939,838	91
	31A	Combed wool fabric	Kg.	298,754	99
	43	Hosiery	Pairs	9,732,850	98
Hong Kong, China	05	Trousers, overalls and shorts	No.	7,212,881	95
	05A	Of which: trousers MBWG	No.	5,800,271	100
	07/08A	Woven shirts, and blouses, MBWG	No.	11,695,879	98
	09	Underwear	No.	10,860,327	99
	10A	Sleepwear, MBWG	No.	470,683	95
	11	Sweaters	No.	10,851,946	100
	11A	Of which: sweaters, MB	No.	1,755,728	94
Indonesia	05A	Trousers, MBWGC	No.	3,339,311	92
	09	Underwear	No.	2,185,950	94
India	00A	Clothing	Sq. Mt.	40,355,719	92
	08A	Shirts, blouses	No.	9,999,999	90
	09	Underwear	No.	9,550,060	100
South Korea	11	Sweaters	No.	8,779,690	90
	43	Hosiery	Pairs	24,512,464	96
Laos	07/08A	Woven shirts, blouses, MB	No.	180,435	92
Sri Lanka	05	Trousers, overalls and shorts	No.	1,394,249	100
Macao	00A	All clothing	Sq. Mt.	8,592,000	92
	11	Sweaters	No.	979,607	92
Malaysia	09	Underwear	No.	9,528,120	94
Philippines	05	Trousers, overalls and shorts	No.	2,747,007	94
	07/08A	Shirts, T-shirts, sweatshirts	No.	3,303,371	90
Pakistan	08A	Shirts, blouses, MB	No.	8,271,702	96
	41A	Bed sheets	No.	1,332,478	99
	41B	Pillowcases	No.	1,195,577	92
Thailand	09	Underwear	No.	2,889,809	100
	34A	Nylon fabric	Kg.	102,575	96
Turkey	05A	Trousers, MBWG	No.	966,625	99
Taiwan	01A	Jackets, brushed	No.	295,736	97
	08A	Shirts and blouses	No.	3,844,558	95
	13	Foundation garments	No.	45,820	93
	43	Hosiery	Par	4,763,252	90
Viet Nam	00A	All clothing	No.	2,575,221	93

Note: MB: men and boys; WG: women and girls; C: children.

Source: DFAIT online information. Available at: <http://www.dfait-maeci.gc.ca/~eicb/reports/brx02-dec01.pdf>.

60. In June 2002, the Canadian Government announced an initiative to provide 48 countries eligible for the Least Developed Country Tariff (LDCT) with duty-free and quota-free access to the Canadian market for all products (except those under the supply-management system) as of January 2003.<sup>31</sup> As most of Canada's remaining quantitative restrictions are in place on textiles and clothing products, and since most LDCs' exports to Canada already consist of textiles and clothing products, these products should be the main beneficiaries of this initiative. Quotas are currently in place on imports of certain clothing products from Bangladesh, Myanmar<sup>32</sup>, Cambodia, Laos, Lesotho, and Nepal. Approximately one half of Canada's imports of clothing from LDCs are under quota. However, only quotas from Bangladesh are filled annually (Table IV.4).

61. The Canada Customs and Revenue Agency was allocated Can\$10.9 million to implement and administer the new initiative for LDCs. These resources were to be used to ensure compliance with the new rules of origin regime, and to address potential illegal trans-shipment.

62. In June 2002, the Minister of Industry announced a strategic framework aimed at increasing the international competitiveness of the Canadian clothing and textile industries. Focussed primarily on best practices, marketing initiatives, and e-commerce, this initiative is designed to help Canadian firms take advantage of global clothing and textile opportunities. The initiative will be implemented over the next four years with federal funding of up to Can\$33 million.

63. Foreign direct investment plays a minor role in the domestic clothing industry, but the Government encourages FDI as a means of preserving employment in the sector. For example, in February 2001, China Worldbest Group Ltd announced an investment of Can\$45 million in a knit and dye plant in Drummondville (Quebec). This investment will result in the creation of 380 permanent jobs over two years. The company is receiving provincial financial assistance of Can\$3 million from Investissement Québec for capital investment, a repayable financial contribution of Can\$10 million from Economic Development Canada for the regions of Québec, as well as technical and financial support from Drummondville to develop the required infrastructures. The Prime Minister of Canada pointed out that this investment constituted a gateway to the North American market.<sup>33</sup>

#### **(4) STEEL**

64. The Canadian steel industry accounted for some 0.5% of GDP, and provided employment for some 28,000 workers in 2001. Although its contribution to GDP and employment is relatively modest, the Canadian steel industry has sizeable spillover effects on other sectors of the economy, particularly coal, gas, electricity, iron ore, limestone, zinc, and other metals.<sup>34</sup> The value of shipments was Can\$9.3 billion in 2001. Seventeen production plants owned by 14 companies across five provinces (Alberta, Manitoba, Ontario, Quebec, and Saskatchewan) produce carbon and stainless steel in flat and long products; a further 20 production facilities produce pipes and tubes, wire and wire products.<sup>35</sup> The provincially-owned Sydney Steel Corporation, in Nova Scotia, was closed in 2001; it is being demolished and its assets liquidated.

<sup>31</sup> See DFAIT online information. Available at <http://www.dfait-maeci.gc.ca/tna-nac/ldc-dis02-e.asp>.

<sup>32</sup> Myanmar (Burma) is excluded from Canada's LDC Tariff.

<sup>33</sup> Investissement Québec Press Release, 15 February 2001 available online at: [http://investquebec.com/en/int/presse/communiqués\\_archives\\_res.jsp?id=172&The\\_id=74](http://investquebec.com/en/int/presse/communiqués_archives_res.jsp?id=172&The_id=74).

<sup>34</sup> See, for example, the Canadian Steel Producers Association online information. Available at <http://www.canadiansteel.ca/industry/info.htm>.

<sup>35</sup> More detailed information on Canadian steel producers and products is available online at: <http://www.canadiansteel.ca/industry/factsheets/cdnproducts.htm>.

65. About a third of the steel produced in Canada is directly exported, and as much as 80% of the steel made is ultimately exported as a component of manufactured products. According to Canadian steel industry data, imports in 2001 represented around 36.7% of domestic consumption (in volume terms). The main trading partner is the United States. In 2001, imports from the United States totalled 56% of all Canadian steel imports, while Canada's steel exports to the United States amounted to 94%, by volume, of steel exports.<sup>36</sup>

66. During the 1990s, the Canadian steel industry was restructured, resulting in a 15% reduction in employment. During that decade, many steelmakers closed inefficient or unprofitable facilities, exited some lines of business, and invested in new plant and equipment totalling Can\$4.9 billion. Almost all this investment was directed to new or upgraded finishing facilities. The crude steelmaking capacity of the industry increased only marginally over the period, whereas the production capacity for value-added products, like plate, hot rolled and cold rolled sheet, and corrosion-resistant sheet products, was augmented. Consequently, the manufacturing value added per production worker increased.

67. The industry's restructuring was handled by the firms involved, with the exception of Algoma Steel in Ontario, which was restructured under the provisions of the Companies' Creditors Arrangement Act (CCAA). Financial assistance to this firm was provided by the federal, provincial and municipal governments. The assistance was approximately Can\$22 million, shared on a 50% basis between the federal government and the province.<sup>37</sup> According to Canadian steel industry data, the restructuring effort produced productivity gains of around 14% a year between 1993 and 1999.<sup>38</sup> Between 1992 and 1999 Canada's shipments of steel increased by 22% while apparent consumption of steel increased by 74%, and imports rose by 195%. The import share of the Canadian steel market rose from 22% to 36%; the market share of imports from the United States rose from 14% to 19% over the same period.

68. After a period of growth between 1997 and 2000, there was a decline in Canadian production and exports of steel in 2001. Imports, however, have been falling by more than exports. In 2001, while exports contracted by 8.5% in volume with respect to the previous year, imports fell by 30% (Table IV.5). Also, although domestic production and consumption fell in 2001 (by 7.9 and 14.6%, respectively), the share of the domestic market supplied by domestic producers rose to some 64%, while the share held by imports fell from 44% to 36% in the previous year.

69. The contraction in imports in 2001 was not evenly spread across supplying countries. Imports from the United States fell by less than the average in 2001 (by 10% in volume terms), and the share of the Canadian market supplied by U.S. imports rose to 21% in 2001 up from 19.6% in 2000. Imports from Eastern Europe, Russia, some Central Asian countries, as well as from Chinese Taipei, India, Indonesia, Korea, Japan, and Hong Kong, China, were the most affected, falling by over 50%, while imports volumes from the EU fell by 21%.

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<sup>36</sup> Canadian Steel Producers Association online information. Available at: <http://www.canadiansteel.ca/industry/factsheets/cdneconomy.htm>.

<sup>37</sup> Details of the Federal Government's assistance to Algoma Steel and the community of Sault Ste. Marie, Ontario is available online at: <http://www.strategis.ic.gc.ca/SSG/fn01080e.html>.

<sup>38</sup> Canadian Steel Producers Association online information. Available at: <http://www.canadiansteel.ca/industry/factsheets/quickfacts.htm>.

Table IV.5  
Main indicators of the Canadian Steel Industry, 1997-02

	1997	1998	1999	2000	2001	2002 <sup>a</sup>
Production – (million tonnes)	15.5	15.8	16.1	16.5	15.2	8.2
Shipments - Finished (million tonnes)	14.5	14.1	15.0	14.9	14.2	7.9
Domestic shipments (million tonnes)	9.7	9.3	10.2	9.9	9.6	5.0
Value of shipments (Can\$ billion)	10.3	10.6	10.5	10.5	9.3	5.1
Domestic consumption (million tonnes)	15.4	16.1	16.3	17.8	15.2	7.9
Imports (million tonnes)	5.7	6.7	6.1	7.9	5.6	2.9
Imports (US\$ billion)	4.0	4.6	4.9	5.5	5.1	..
Exports (million tonnes)	4.8	4.7	4.7	5.0	4.6	2.9
of which, exports to the United States	4.0	4.2	4.2	4.0	4.4	2.6
Exports (US\$ billion)	2.9	3.0	3.5	3.9	3.4	..
Share of imports in total consumption (%)	37.0	41.9	37.5	44.4	36.7	36.9

Note: All quantity figures (i.e. tonnes) are for finished steel products, save for production data, which is for crude steel.

.. Not available.

a Data for the first six months.

Source: Statistics Canada.

70. Anti-dumping investigation initiations concerning steel products increased during the period under review. In calendar years 2000 and 2001, 37 out of 46 new investigations dealt with products of the steel industry (Chapter III).<sup>39</sup> A total of 23 countries were affected by the investigations.<sup>40</sup> In all cases individual market shares were small, between 0.1% and 4.4% of total consumption. Imports from the United States were not subject to new investigations during the period. Provisional duties were applied in most cases, ranging from 2.47% to 96%, but in 40% of the cases where provisional duties were applied, no final duties were levied. At the end of 2001, 64 definitive duty orders covering steel products from 32 countries were in place. These duties represented some 70% of total anti-dumping duties in place.

71. Following the decision of the Government of the United States in March 2002 to impose safeguard measures on imports of nine steel products, Canada (through the CITT) launched a safeguard investigation into imports of steel products from all countries.<sup>41</sup> Canada was principally concerned about the possible diversion of foreign steel into the Canadian market. On 4 July 2002, the CITT determined that: flat-rolled carbon and alloy steel discrete plate; flat-rolled carbon and alloy steel cold-rolled sheet and coil; carbon and alloy steel concrete reinforcing bars; welded and seamless carbon and alloy tubular steel standard pipe; and carbon and alloy steel angles, shapes and sections, were being imported into Canada from all sources in such increased quantities since the beginning of 1996, and under such conditions, as to be a principal cause of serious injury to domestic producers of like or directly competitive goods. It also determined that imports from the United States of these products, except for carbon and alloy steel concrete reinforcing bars, accounted for a substantial share of total imports of goods of the same kind and were contributing importantly to the serious injury.<sup>42</sup> Imports from Mexico, Israel, and Chile were found not to account for a substantial

<sup>39</sup> More information is available online at: <http://www.ccra-adrc.gc.ca/customs/business/sima/monthly-e.html>.

<sup>40</sup> Brazil, Bulgaria, China, Chinese Taipei, FYR of Macedonia, India, Indonesia, Italy, Japan, Korea, Latvia, Luxembourg, Malaysia, Moldova, New Zealand, Poland, Portugal, Russian Federation, Saudi Arabia, South Africa, Thailand, Ukraine, Yugoslavia, F.R.

<sup>41</sup> Department of Finance, Press Release 2002-025, 22 March 2002, "Canada Calls for Investigation on Steel Imports", [Online]. Available at <http://www.fin.gc.ca/news/02/02-025e.html>.

<sup>42</sup> Under NAFTA rules or under the FTAs with Chile and Israel, if Canada takes a WTO global safeguard action, it is required to exclude imports from the United States, Mexico, Chile, and Israel, unless

share of total imports of goods of the same kind, and not to contribute importantly to serious injury. No injury was found in the case of imports from all sources. The CITT found no injury in the case of imports from all sources of: flat-rolled carbon and alloy steel hot-rolled sheet and coil flat-rolled carbon and alloy steel corrosion-resistant sheet and coil; carbon and alloy hot-rolled steel bars; and carbon and alloy steel cold-drawn and finished bars and rods. The CITT sent its determination to the Governor on 19 August 2002, for possible action.<sup>43</sup>

72. Canada has administered a monitoring programme for imports of carbon and specialty steel products since September 1986, when these products were added to the Import Control List. The grounds for this decision were the results of an inquiry conducted by the Canadian Import Tribunal, the predecessor to the CITT, which found that global excess capacity, as well as the prevalence of subsidization and dumping threatened to injure the Canadian steel industry, and recommended import monitoring. The steel import-monitoring programme is based on the provisions of the Export and Import Permits Act, and has been renewed every three years, most recently in August 2002.

73. Pursuant to the steel import-monitoring programme, individual import permits are required for each shipment of carbon and specialty steel products; these permits are issued by the Department of Foreign Affairs and International Trade and must be presented at the time of customs clearance.<sup>44</sup> Permits are not required when: the value of imports is less than Can\$5,000; the importer is a vehicle manufacturer; or the goods are of Canadian origin, returning to Canada after having been exported without any processing abroad. The programme does not limit the quantity of carbon and specialty steel products that may be imported into Canada. The issuance of the permits is automatic.<sup>45</sup>

## **(5) TELECOMMUNICATION AND AUDIOVISUAL SERVICES**

### **(i) Introduction**

74. Since Canada's previous Review in 2000, there have been no major regulatory changes affecting market access or national treatment to Canada's telecommunications or audiovisual services.

75. Industry Canada has responsibility for telecommunications policy and international submarine cable licensing under the Telecommunications Act of 1993. It is also responsible for spectrum policy and management of radiocommunication services under the Radiocommunication Act. The Canadian Radio-television and Telecommunications Commission (CRTC) is responsible for the regulation and supervision of telecommunications and broadcasting services in Canada and, in collaboration with the Competition Bureau, for ensuring that major suppliers do not engage in anti-competitive practices. The CRTC is an independent federal agency with quasi-judicial status.

### **(ii) Telecommunications services**

76. In 2001, telecommunications services contributed about 2.6% to GDP. The sector's GDP share has increased steadily in the last four years.<sup>46</sup> Trade data for 2001 from Statistics Canada show that exports of telecommunications services amounted to Can\$1.06 billion, while imports reached

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imports from each account for a substantial share of total imports and contribute importantly to the serious injury caused by imports.

<sup>43</sup> More information is available online at: [http://www.citt.ga-ca/Safeguard/index\\_e.htm](http://www.citt.ga-ca/Safeguard/index_e.htm).

<sup>44</sup> Import permits are required for steel products with HS headings 7206-7302, 7304-7306, 7308, 7312-13 and 7317.

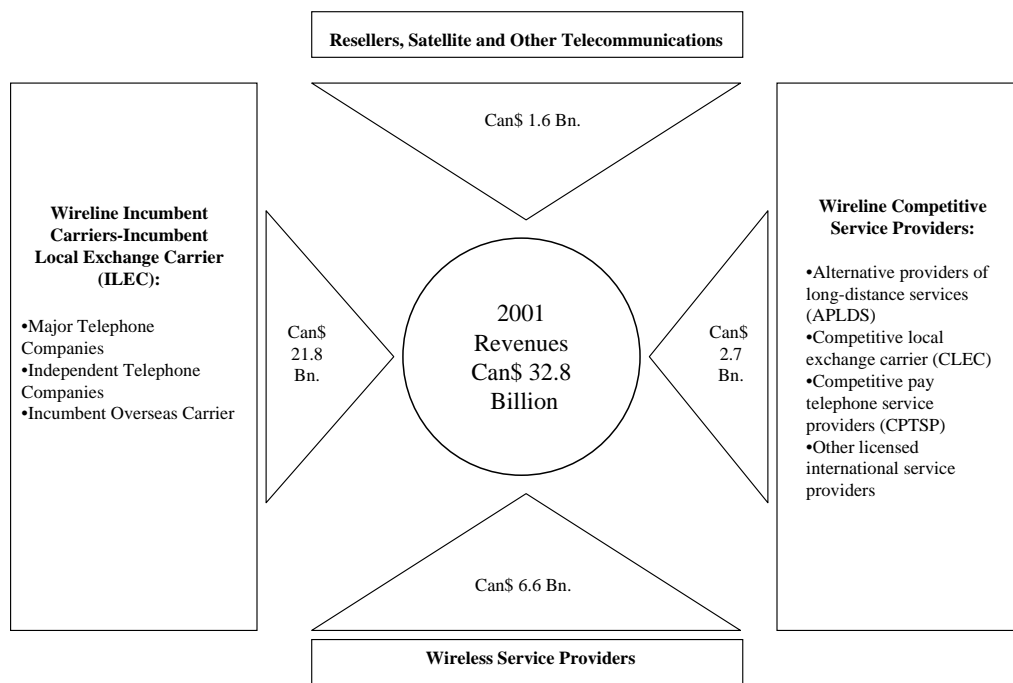
<sup>45</sup> More information on this programme is available online at: <http://www.dfait-maeci.gc.ca/~eicb/steel/steel-e.htm>.

<sup>46</sup> For indicators of telecommunication services, see for example Industry Canada (undated).

Can\$1.23 billion. The stock of foreign direct investment in communications services, which include telecommunications, postal, and courier services, doubled between 1997 and 2001, to Can\$8.5 billion.

77. The facilities-based "incumbent carriers" (the former telephone monopolies, including the local companies (ILECs), the independent companies, and the former overseas monopoly Telelobe) constitute the largest segment of Canada's telecommunications industry, with 67% of revenues in 2001 (Chart IV.4). However, approximately 65% of the increase in total revenues in 2001 was attributed to the wireless service providers, which account for 20% of total revenues. Competition also comes from competitive facilities-based carriers, and from nearly 500 resellers.

**Chart IV.4**  
**Telecommunications Service Industry Key Players**



78. Under the Telecommunications Act, all telecommunications facility-based common carriers must be Canadian-owned and controlled, and incorporated under the laws of Canada or a province.<sup>47</sup> The Act specifically requires that facilities-based telecommunications services providers can have no more than 20% of their voting shares held by non-Canadians and that the company must be Canadian controlled. The Canadian Telecommunications Common Carrier Ownership and Control Regulations require that holding companies can have no more than 33.3% non-Canadian voting shareholders. The combined maximum foreign ownership of voting shares is therefore 46.7%, 20% direct plus 26.7% (one third of the remaining 80%) indirect. These provisions do not apply to the ownership or operation of international submarine cables, nor to satellite earth stations, which can be foreign-owned.

79. As a result of the above restrictions, foreign participation in most basic telecommunications services stems mainly from resale-based services, and satellite services; the authorities have noted,

<sup>47</sup> The Telecommunications Act is available online at: <http://laws.justice.gc.ca/en/T-3.4/94898.html>.

however, that foreign participation does occur through minority holdings of Canadian companies, such as Telus, AT&T Canada, and Call-Net. Several WTO Members have asked about prospects for liberalizing the limitation on foreign ownership and control.<sup>48</sup> The authorities stated, in the context of the previous Canadian Review, that these restrictions are necessary for reasons of national security and economic, social, and cultural well-being.

80. Teleglobe's monopoly on overseas (non-U.S.) telecommunications services was abolished in 1998. According to the Competition Bureau, the result has been a continuous decrease in the cost of overseas telephone calls for Canadian consumers.<sup>49</sup> Since 1998, the CRTC has issued over 240 licences for the provision of international telecommunication services (facilities-based providers, and resellers). Market share for Teleglobe, measured as a percentage of outgoing minutes, fell to 16% in 2000, down from 24% in 1998. The CRTC does not regulate Teleglobe's pricing and agreements with third parties or other aspects of its operations. Providers of international services are subject to the same limitations on foreign ownership as providers of domestic services. There were 109 facilities-based providers and 131 resellers of international services licensed with the CRTC in 2002.

81. Since 1998, Telesat's exclusive rights on satellite facilities have been abolished. Since 2000, any satellite, domestic or foreign, can provide telecommunications services (but not broadcasting services – see below). Including Telesat's satellites, there are now 50 satellites approved for fixed satellite service in Canada.

82. In November 2000, the CRTC established a national revenue-based contribution collection mechanism effective 1 January 2001, whereby companies would contribute a percentage of their revenues that are considered to be contribution-eligible (Decision 2000-745). The purpose of the contribution is to fund local telephone service in high-cost areas in Canada (i.e. rural and remote areas). This mechanism was to be reviewed and finalized during 2002.<sup>50</sup> The authorities have indicated that, aside from subsidies to fund services in high cost areas, cross-subsidies have been eliminated in the telecommunications industry, and that the competitive services offered by the incumbent operators are not being subsidized by other monopoly or near-monopoly service offerings.

83. Following Decision 97-9 capping the price charged for local telephone services for a four-year period starting in January 1998, the CRTC concluded in early 2002 that pricing rules were still needed to protect customers. In May 2002, CRTC issued new rules to determine the local telephone rates to residential and business customers, as well as competitors, by the five current incumbent Canadian local telephone companies.<sup>51</sup> The new pricing rules for local phone service took effect in June 2002 for four years.

84. As part of the WTO basic telecommunications negotiations, concluded in February 1997, Canada made commitments to end all basic telecommunications monopolies, and to remove foreign ownership restrictions in some areas.<sup>52</sup> As a result, Canada ended Teleglobe's monopoly on overseas facilities-based telecommunications services and Telesat's monopoly on fixed satellite services. Traffic routing restrictions were removed for all international services, as well as for all satellite services, except for fixed satellite services between Canada and points in the United States. The latter were liberalized in March 2000.

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<sup>48</sup> WTO document WT/TPR/M/78, 5 February 2001.

<sup>49</sup> Competition Bureau (2000).

<sup>50</sup> See: Telecom Decision CRTC 99-16 available online at: <http://www.crtc.gc.ca/archive/Decisions/1999/DT99-16.htm>; and Decision CRTC 2000-745, at: <http://www.crtc.gc.ca/archive/Decisions/2000/DT2000-745e.htm>.

<sup>51</sup> TELUS, SaskTel, MTS, Bell Canada, and Aliant.

<sup>52</sup> WTO document GATS/SC/16/Suppl.3, 11 April 1997.

**(iii) Audiovisual services**

85. Canada maintains a number of regulations that affect foreign participation in the audio-visual sector, so as to foster Canadian cultural content and diversity (Box IV.1). These have been described in previous Reviews. This section focuses on the measures applied to radio and television services or to their broadcasting. Canada specifically excluded from its WTO commitments telecommunications services supplied for the transmission of services regulated under the Broadcasting Act, where such services are intended for direct reception by the public.

86. The review of all direct acquisitions over Can\$5 million (Can\$50 million for indirect acquisitions) of all broadcasting companies is mandatory under the Investment Canada Act.<sup>53</sup> Under the Broadcasting Act, foreign ownership of a broadcasting company is limited to 20% of voting shares (maximum 33.3% in the case of a parent corporation).<sup>54</sup> In practice, broadcasting companies include television (including cable television), radio, satellite services suppliers, but not internet service providers.

87. Under Canada's ownership and control regulations, no broadcasting licence may be granted to a non-Canadian. This restriction concerns all broadcasting companies, including wireline, wireless, satellite companies, and cable television companies.

88. Under the Broadcasting Act, each broadcasting undertaking must make no less than predominant use of Canadian creative and other resources in the creation and presentation of programming unless the nature of the service (e.g. specialized or foreign language content) renders that use impracticable. Among the measures relating to content, the CRTC requires that for Canadian conventional, over-the-air broadcasters, Canadian programming make up 60% of television broadcast time, and 50% during the evening hours. For other services, such as specialty television and pay-TV, the required percentage of Canadian content varies according to the nature of the service, but is generally less than the requirement for conventional television. The CRTC also requires that 35% of "popular" musical selections broadcast on radio should qualify as "Canadian" under a government-determined points system. For French-language radio, 65% of vocal popular music must be in French. For cable TV, the majority of channels received by the subscriber must be Canadian.

89. The authorities have indicated that under the current policy, broadcasting, distribution undertakings can access foreign programming services from any satellite provider, Canadian or foreign; prior to December 2001, broadcasting undertakings had to make use of Canadian satellite facilities to carry (i.e. receive and/or distribute to Canadians) all Canadian programming services. However, foreign programming services, in order to be distributed, must be approved for carriage by the CRTC and "listed" on the List of Eligible Satellite Services. At the end of 2002 there were some 94 foreign programming services available to Canadian distributors. Canada does not allow the use of foreign satellites for the distribution of broadcast programming services directly to the home.

90. The CRTC carries out market impact assessments before deciding whether to issue licences to new (Canadian) services, including specialty services. The Commission's general policy precludes the addition of new non-Canadian satellite services that can be considered either totally or partially competitive with Canadian specialty or pay television services. The CRTC may also remove existing non-Canadian services from the list if they become competitive with a Canadian pay or specialty services. However, the authorities have stated that the CRTC is not disposed to remove a non-Canadian service from the list even if it subsequently licenses a competing Canadian service.

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<sup>53</sup> For a definition of broadcasting companies under the Investment Canada Act, the text of the Act is available online at: <http://laws.justice.gc.ca/en/i-21.8/75574.html>.

<sup>54</sup> The Act is available online at: <http://laws.justice.gc.ca/en/b-9.01/7954.html>.

**Box IV.1 The International Instrument on Cultural Diversity**

The Canadian Federal Government's commitment to "develop a new approach internationally to support the diversity of cultural expression in countries around the world" was first articulated in the Speech from the Throne in September 1999. Previously, the House of Commons Standing Committees on Canadian Heritage and Foreign Affairs and International Trade, as well as the Cultural Industries Sectoral Advisory Group on International Trade (SAGIT), a group of private sector leaders that is part of the Federal Government's advisory system on international trade, had devoted attention to Canada's ability to pursue cultural policy objectives in the context of economic integration.

In a study conducted at the request of the Minister for International Trade, SAGIT had identified the need for a new international rules-based approach to manage the interface between cultural policy objectives and trade obligations. Specifically, the study argued that a policy relying solely on exemptions for cultural industries in trade agreements would prove increasingly ineffective in helping Canada to maintain and develop the policy and regulatory environment conducive to its objectives in the area of culture. Several reasons were cited in support of this argument, including the likely evolution of the trading system towards more openness and stricter disciplines, as well as the convergence of new technologies, a trend that has increasingly blurred the lines between telecommunications, cable, broadcasting, publishing, and other forms of distribution. The SAGIT followed up on this study by providing a draft instrument and Discussion Paper made public by the Minister of International Trade on 13 September 2002.

In late 1999 the Government announced that, in negotiating an instrument on cultural diversity, it would seek to set out clear ground rules to enable Canada and other countries to maintain policies that promote their culture while respecting the rules of the international trading system and ensuring markets for cultural exports. Pending negotiation of such an instrument, the Government underscored its intention to continue to seek the maximum flexibility in international agreements to pursue its cultural policy objectives.

Since then, Canada's efforts have focused on building international support for an instrument on cultural diversity and reaching consensus on the basic principles underlying such an instrument. Some of the key principles being proposed by Canada in this context include:

- cultural goods and services play a broader role in society than that of simple commodities;
- cultural diversity recognizes both openness to diverse cultural influences and the importance of promoting local content;
- cultural diversity plays an important role in social cohesion, economic prosperity, and human security; and
- governments have a key role to play in preserving and promoting cultural diversity.

Canada has been active in international discussions on cultural diversity in a variety of international fora, including the G-8, La Francophonie, the Organization of American States, the Summit of the Americas, and UNESCO. Canada is also chairing the Working Group on Cultural Diversity and Globalization of the International Network on Cultural Policy (INCP), an informal grouping of more than 40 culture ministers. At the request of ministers meeting in Lucerne, Switzerland in September 2001, the working group produced a draft international instrument on cultural diversity, which was discussed at the fifth ministerial meeting of the INCP held in Cape Town, South Africa in October 2002.

Source: The Cultural Industries Sectoral Advisory Group on International Trade (1999), *Canadian Culture in a Global World: New Strategies for Culture and Trade*, available online at: [www.infoexport.gc.ca/trade-culture](http://www.infoexport.gc.ca/trade-culture); Barbara Motzney (2002), *Cultural Diversity: A New International Instrument*, available online at: [www.er.uqam.ca/nobel/gricis/actes/panam/Motzney.pdf](http://www.er.uqam.ca/nobel/gricis/actes/panam/Motzney.pdf); and DFAIT (1999), *It's Your Turn: Canada and the Future of the World Trade Organization-Government Response to the Report of the Standing Committee on Foreign Affairs and International Trade*, available online at: [www.dfait-maeci.gc.ca/tna-nac/canwto-en.asp#Culture](http://www.dfait-maeci.gc.ca/tna-nac/canwto-en.asp#Culture) [15 December 2002].

**(6) MARITIME TRANSPORT**

**(i) Introduction**

91. Canada's maritime transport policies and practices were last surveyed in its 1996 Trade Policy Review. Since then, many legislative changes have occurred, mainly with the objective of increasing competition both among carriers and among ports, of shifting the financial burden of port management from taxpayers to users, and down-sizing and commercializing infrastructures.<sup>55</sup> In the current WTO negotiations on maritime transport services, Canada's stated objective is to achieve greater openness for trade in international maritime services through a reduction of market access barriers, so as to promote increased competition, lower prices, greater choice, and greater efficiency of maritime services industries.

92. The Federal Government has exclusive competence for inter-provincial and international transport. Transport Canada is the Department responsible for maritime transport policies, while implementation and enforcement is in the hands of the Canadian Transportation Agency, the federal regulator.

93. Maritime freight is not a dominant mode of transport for Canada's international trade because of the importance of Canada-U.S. traffic, where maritime trade is dwarfed by land transport. Trade with non-U.S. sources and destinations is dominated by foreign flag ships, and most of the tonnage carried by a Canadian-controlled international fleet is carried by vessels under foreign flags and employing foreign officers and crew.<sup>56</sup> The Canadian fleet (defined as vessels flying the Canadian flag) carries mostly domestic and Canada-U.S. traffic. The Canadian fleet benefits from a number of measures designed to protect Canadian shipbuilders, shipowners, and seafarers, including from foreign competition.

94. From 1976 to 1998, despite government support, the Canadian merchant fleet faced many economic and financial difficulties. After its 1981 peak of 271 vessels and a combined loading capacity of 2.7 million gross tons, the Canadian merchant fleet declined to a low of 174 vessels and 2 million gross tons in 1997. Carrying capacity began to recover in 1998, with 180 vessels and over 2.3 million gross tons by the end of 2001.<sup>57</sup> Total average annual employment in the marine transport industry has also increased by 16.3% since 1999. Although employment increased in all regions, the largest increases were in Ontario and British Columbia, with more than 1,000 jobs created in each of these provinces over the last three years.<sup>58</sup> The authorities have noted that this job creation is mainly due to the increase in traffic handled as well as increased scenic and sightseeing transportation, both of which resulted in higher demand for water transportation support activities, such as port and harbour operations.

95. Dry bulk carriers registered a declining share in terms of gross tons and number of vessels from 1981 to 2001, but remain the backbone of the Canadian merchant fleet, accounting for 55% of tonnage and 39% of vessels in 2001. Dry bulk carriers totalled 71 vessels in 2001, dedicated mainly to grain transportation and various bulk commodities. Tankers' share of total gross tonnage has been increasing because of the addition of larger units, although the number of vessels fell from 41 to 22 over the 20-year period.<sup>59</sup>

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<sup>55</sup> For further details about this reorganization see Transport Canada annual reports, available online at: [http://www.tc.gc.ca/pol/en/t-facts3/Transportation\\_Annual\\_Report.htm](http://www.tc.gc.ca/pol/en/t-facts3/Transportation_Annual_Report.htm).

<sup>56</sup> See UNCTAD (2001), Table 16.

<sup>57</sup> Online information. Available at: <http://www.tc.gc.ca/pol/en/anre2001/tc0110ee.htm>.

<sup>58</sup> The average annual employment in the marine transport industry from 1998 to 2001 is available online at: <http://www.tc.gc.ca/pol/en/anre2001/tc0106be.htm>.

<sup>59</sup> Online information. Available at: <http://www.tc.gc.ca/pol/en/anre2001/tc0110ee.htm>. (Table 10-9 Canadian registered fleet by type of vessel. 1981-2001).

**(ii) Regulatory framework**

96. As noted, there have been a number of changes in Canada's maritime transport legislation. The Canada Shipping Act (CSA), the principal legislation governing the operation of Canadian flag vessels and of foreign vessels in waters under Canada's jurisdiction, was amended in 2001. The overhaul of the CSA began in 1996, aimed at better protecting the health, safety, and well-being of individuals and the marine environment. The reform was also aimed at encouraging viable, effective, and economical marine transportation and commerce.<sup>60</sup>

97. Bill C-14, the Canada Shipping Act (CSA) 2001, received Royal Assent in November 2001. However, its provisions will not enter into force until supporting regulations have been developed. According to the authorities, the new Act and regulations will not introduce any change regarding market access or national treatment of foreign suppliers.

98. The CSA, as amended, introduced changes to the Shipping Conferences Exemption Act (SCEA), which exempts certain shipping conference practices from the provisions of the Competition Act.<sup>61</sup> The amendments aim to inject greater competition into liner shipping conference operations, so as to ensure that Canadian shippers have access to adequate international ocean shipping services at reasonable cost.<sup>62</sup> Competition was expected to increase not only between conference and non-conference carriers, but also within conferences through the independent action provision contained in the Shipping Conferences Exemption Act. The provision permits individual conference lines to offer a rate or services different from those published as part of the conference tariff. In addition, under the amendments to the SCEA, individual conference lines may now sign service contracts with shippers without disclosing the contract terms and conditions to the conference. As under the previous legislation, conference-wide service contracts may also be negotiated and signed between a conference and a shipper. These contracts are confidential but, to comply with SCEA, must be filed with the Canadian Transportation Agency.

99. In 2001, the Agency accepted filings for 98 service contracts from seven conferences, four more than in 2000. The contracts applied to both inbound and outbound traffic and to origins/destinations on both the east and west coasts of Canada. The average duration of the contracts was one year.

100. The Canada Marine Act (CMA) was passed in 1998. The CMA, coupled with the National Marine Policy of 1995, was designed mainly to make the system of Canadian ports more competitive, efficient, and commercially oriented; establish port authorities; and transfer ownership of certain harbours and ports (see below) to local entities. It also facilitated the commercialization of the St. Lawrence Seaway, contained provisions for the further commercialization of federal ferry services, and aimed to improve the way pilotage authorities operate in Canada.<sup>63</sup> In May 2002, the Minister of Transport announced a review of the CMA to be completed by June 2003.

101. According to Canada's response to the GATS Questionnaire on Maritime Transport Services, there are no Canadian restrictions limiting access to the international shipping market.<sup>64</sup> Canada

<sup>60</sup> Online information. Available at: <http://www.tc.gc.ca/pol/en/anre2001/tc0110ee.htm>.

<sup>61</sup> The Act is available online at: <http://laws.justice.gc.ca/en/S-10.01/92442.html>. A shipping conference is an association of liner companies operating under an agreement to provide ocean transportation services on common routes and using common rates and terms of service. Shipping lines calling at Canadian ports on a given route may choose to provide conference or non-conference liner services. Lines that choose not to participate in conferences are considered independent shipping lines or non-conference carriers.

<sup>62</sup> Online information. Available at: <http://www.tc.gc.ca/pol/en/anre2001/tc0110ee.htm>.

<sup>63</sup> Online information. Available at: [http://www.tc.gc.ca/pol/en/marine/menu\\_e.htm](http://www.tc.gc.ca/pol/en/marine/menu_e.htm).

<sup>64</sup> WTO document S/NGMTS/W/2/Add.5, 24 January 1995.

allows for temporary entry of business visitors, intra-corporate transfers (executives, managers, specialists), crew members remaining on board, as well as replacement crews, marine surveyors, and port captains. In the two latter cases, entry is limited to 90 days. Commercial presence is not tied to any specific legal form, except for licensed customs brokers, which must be incorporated in Canada and a majority of directors must be permanent residents or they must be organized as a partnership composed of permanent residents. There are a few specific exceptions to national treatment of shipping operations. One is the requirement for most crew members to hold certificates granted by the Minister in order to provide a service on Canadian-registered ships. Such certificates may be granted only to Canadian citizens or permanent residents (see below). Canada also maintains an MFN exception relating to the reciprocity provisions concerning double taxation on income and capital earned in Canada by non-residents from ships operating in international traffic. The conditions of access to and use of port facilities do not discriminate between foreign- and Canadian-owned vessels.

102. Canada's commitments under the GATS are limited to providing non-discriminatory access to and use of the following port services: towing and tug assistance, provisioning, fuelling and watering, garbage collecting and ballast waste disposal, emergency repair facilities, lightering and water taxi services, ships agencies; customs brokers; stevedoring and terminal services; surveying and classification services.<sup>65</sup> In addition, Canada undertook to provide non-discriminatory access to and use of transport services for the purpose of onward forwarding of cargo. Market access and national treatment commitments for auxiliary services cover: customs clearance, freight forwarding, container station and depot services, and storage and warehousing. There is a limitation involving a commercial presence requirement for licensed customs brokers. Canada has not undertaken any sector-specific commitments on the provision of auxiliary services through the temporary entry of natural persons.

**(iii) Measures affecting market access**

103. Under the Coasting Trade Act, coasting trade (or cabotage) is reserved for Canadian-flagged ships.<sup>66</sup> Specifically, this law reserves the carriage of goods and passengers, as well as any other marine activities of a commercial nature in Canadian waters, to Canadian registered, duty-paid vessels. This reservation extends to waters above the continental shelf, when those activities are related to the exploration and exploitation of non-living resources. Under the Coasting Trade Act, Canadian domestic shippers have access to foreign vessels when no Canadian registered, duty-paid vessel is capable of or available to provide a service.

104. Registration to fly the Canadian flag is reserved for the three following groups:

- a Canadian citizen or a permanent resident<sup>67</sup> or a corporation incorporated under the laws of Canada or a province or;
- a corporation incorporated under the laws of a country other than Canada, if one of the following is acting with respect to all matters relating to the ship, namely, (i) a subsidiary of the corporation that is incorporated under the laws of Canada or a province, (ii) an employee or director in Canada of any branch office of the corporation that is carrying on business in Canada, or (iii) a ship management company incorporated under the laws of Canada or a province.

105. A Canadian-registered ship must be operated by Canadian officers and a Canadian crew, hold Canadian certificates, and comply with Canadian safety standards. The applicable regulations (the Crewing Regulations and the Marine Certification Regulations) were both amended in April 2002 to

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<sup>65</sup> WTO document S/L/34, 20 September 1996.

<sup>66</sup> The Act is available online at: <http://laws.justice.gc.ca/en/C-33.3/32348.html>.

<sup>67</sup> Within the meaning of subsection 2(1) of the Immigration and Refugee Protection Act.

achieve compliance with the IMO Convention on Standards of Training Certification and Watchkeeping.

106. The Coasting Trade Act allows for the temporary importation of a non-Canadian-registered or non-duty-paid Canadian-registered vessel, when no Canadian registered duty-paid vessel is available or suitable to carry out the activity. When the carriage of passengers is involved, a determination is also based on the availability of identical or similar adequate marine services from persons operating one or more Canadian vessels. Subject to Canada's Customs Tariff and Excise Tax Act, and under the Vessel Duties Reduction or Removal Regulations, duties and taxes on vessels authorized to be temporarily imported may be reduced to 1/120 of 25% of the declared value of the vessel, payable on a monthly basis, for no more than 12 consecutive months. Subject to a new authorization, vessels imported temporarily may benefit from this reduction for an additional 12 months. Ships imported from Chile, Costa Rica, Israel, Mexico, and the United States, enter duty free, as well as those from the Caribbean and least developed countries. Following the temporary importation of a foreign ship destined for coasting trade, the employment of any foreign personnel is subject to whether Canadian seafarers are available.

107. As in other transport services, the acquisition of control of a Canadian maritime transport business by a non-Canadian is subject to a "net benefit to Canada" test under the Investment Canada Act.

**(iv) The national port system**

108. At the time of Canada's 1996 Review, there were 549 public ports under the responsibility of Transport Canada, although 80% of Canada's maritime traffic passed through only 40 ports. Transport Canada began commercializing its public ports in 1996, and the Federal Government gradually moved out of the direct operation of ports.<sup>68</sup> However, it still operates a number of local and regional ports that have yet to be divested and intends to continue to run remote ports after the divestiture programme is complete. The National Marine Policy was embodied in the Canada Marine Act of 1998 (see above). There are now three categories of ports: (1) Canada port authorities, (2) regional/local ports, and (3) remote ports. However, no major Canadian port has yet been opened to private investment.

109. The independently managed Canada port authorities (CPAs) are financially self-sufficient ports that are critical to domestic and international trade. In mid-2002, there were 19 such CPAs, composed of representatives of user groups and various levels of government. By the end of December 2001, 420 of the 549 public ports and port facilities that were previously under Transport Canada's control and administration (before the National Marine Policy came into force) had been transferred, deproclaimed or demolished, or had Transport Canada's interests terminated.<sup>69</sup> Some 129 regional/local and remote ports and port facilities remained under Transport Canada control at that time.

110. Canada stated in its response to the GATS Questionnaire on Maritime Transport Services that the conditions of access to and use of port facilities do not discriminate between foreign- and Canadian-owned vessels. The authorities have explained in the context of this report that Canada port authorities are authorized to fix fees in respect of vessels or persons coming into or using the port,

<sup>68</sup> For a status report on the divestiture of ports by the Federal Government, see the Transport Canada online information. Available at: <http://www.tc.gc.ca/programs/ports/menu.htm>.

<sup>69</sup> Further details about this reorganization are detailed in Transport Canada's annual reports available online at: [www.tc.gc.ca/pol/en/t-facts3/Transportation\\_Annual\\_Report.htm](http://www.tc.gc.ca/pol/en/t-facts3/Transportation_Annual_Report.htm). A status report on the divestiture of ports by the federal government can be found at [www.tc.gc.ca/programs/ports/menu.htm](http://www.tc.gc.ca/programs/ports/menu.htm).

goods loaded, unloaded or trans-shipped within the limits of the port, or services provided by the port authority; however, fees cannot discriminate between users or classes of users except on a commercially accepted basis. Port authorities may enter into lease arrangements with third parties, including foreign firms, for the provision of services such as stevedoring or terminal operations, within the limits of the port.

**(7) AIR TRANSPORT**

**(i) Introduction**

111. Aviation is Canada's third largest transport sector, representing some 11% of the transport industry's total value added, behind truck and rail transport. Some 26 million passengers were transported domestically in 2000, up from about 21 million in 1995. In addition, the number of transborder passengers (with the United States) increased from 15 to 20 million, and the number of other international passengers increased from about 11 to 14 million.<sup>70</sup> After a period of uninterrupted growth during 1995-99, in 2001, the sector was struggling under the combined effect of the rising fuel prices in 1999-00, the slowing of consumer demand in the first half of 2001, and the 11 September 2001 attacks on the United States. In the fourth quarter of 2001, transborder traffic decreased by some 27% compared with the same period in 2000.

112. The airline industry has undergone continuous restructuring since 1987-88, when the market was deregulated and the state-owned airline, Air Canada, was privatized. In 2000, Air Canada took over its major competitor, Canadian Airlines International. In 2002, a number of airlines provided domestic scheduled air services, several small companies focused on Canada-United States transborder flights and charter companies operated on domestic or international routes. However, in part because of the relatively small size of the Canadian market, Air Canada has emerged as the dominant carrier, accounting for 79% of the domestic market in December 2001.<sup>71</sup> In 2001, the industry reported a loss of Can\$991 million. WestJet, the second largest domestic carrier in late 2002 with a 15% domestic market share, was the only profitable airline. Canada 3000 was the country's second largest carrier before it went bankrupt in 2001.

113. Following the 11 September 2001 attacks, the Canadian Government announced a Can\$160 million programme to compensate Canadian air carriers for losses resulting from the closure of Canadian airspace; the authorities indicated that Can\$99.3 million were actually disbursed, of which Air Canada received Can\$69.8 million.<sup>72</sup> The Government has also provided indemnity for third-party aviation war-risk liability following the cancellation of this coverage by insurance underwriters. The programme was extended until 1 March 2003.

**(ii) Regulatory framework**

114. Economic regulation of the air industry is carried out under the Canada Transportation Act (CTA) of 1996 and Canada's bilateral air agreements. The Canadian Transportation Agency is responsible for granting, suspending, and revoking licences. It receives any notices of exit from domestic air services and ensures compliance with ownership provisions. Domestic services on monopoly or duopoly routes may be withdrawn on 120 days' notice. New entrants must meet several licensing requirements including having adequate insurance and holding a Canadian aviation document. New Canadian entrants using medium and large-sized aircraft must show that they are

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<sup>70</sup> Transport Canada (2001).

<sup>71</sup> Transport Canada (2001), p. 113. Expressed in average daily seat kilometres (thousands).

<sup>72</sup> Canada newswire on line information. Available at: <http://www.newswire.ca/releases/April2002/18/c5924.html>.

financially fit. The CTA prohibits the selling of tickets prior to licensing. Transport Canada monitors compliance with safety regulations and specifies access conditions to computer reservation systems.

115. Domestically, air fares and cargo rates are largely deregulated. In 2000, legislative amendments gave the Canadian Transportation Agency increased powers to review prices and prevent unreasonable fares on routes on which there is no, or very limited, competition and to address complaints about conditions of carriage for domestic services. In addition, until July 2004, the Agency has the power to take action on its own initiative on any price on such non-competitive routes that it determines to be unreasonable. Fares, cargo rates, and terms and conditions for travel between Canada and other countries are regulated under the Air Transportation Regulations and, for scheduled services, are subject to provisions contained in bilateral air agreements (see below).

116. Only Canadians are eligible for a domestic licence to carry traffic between points in Canada.<sup>73</sup> Under the CTA, foreign ownership of an airline is limited to 25%. The CTA definition is: "Canadian citizen or a permanent resident, a government in Canada or an agent of such a government or an entity incorporated under the laws of Canada or a province, that is controlled in fact by Canadians and of which at least 75%, or such lesser percentage as the Governor in Council may by regulation specify, of the voting interests are owned and controlled by Canadians".

117. Approval by Investment Canada is required for the direct acquisition of any company with assets of over Can\$5 million that provides transportation services, and for indirect acquisitions with assets over Can\$50 million. The establishment of a new Canadian transportation business is subject to notification but not to review. In December 2001, legislation was passed eliminating Air Canada's 15% individual share ownership limit. No individual ownership restrictions apply to any other airline.

118. The air-transport market between Canada and other countries is governed by 73 bilateral agreements and arrangements (as of mid-2002). These agreements create de facto limits on the liberalization of air services in Canada, because they restrict routes, airlines, and capacity, specify ownership provisions, and regulate fares. However, the agreements with the United States (1995), the United Kingdom, and Germany are more liberal arrangements that provide for third and fourth freedom access to all cities in both partners' territories, with no restrictions on the capacity and number of carriers that may be operated on these services. They also reduce government involvement in other rights of value to the airline industry (e.g. code-sharing, doing business regulations and competitive ground handling provisions). A cabotage clause is absent in almost all bilateral agreements entered into by Canada.

119. The authorities have indicated that, as a result of the 1995 Canada-U.S. Aviation Agreement, any number of U.S. and Canadian air carriers may be designated to operate between an unlimited number of points in the United States and an unlimited number of points in Canada. Points may be served separately, or in combination on a single flight, the only exception being the lack of co-terminalization rights for courier services. Therefore, air carriers that provide large aircraft services for the carriage of courier goods are not permitted to serve more than one point in the territory of the other party on a single flight, a restriction designed to maintain a Canadian presence in the transborder courier industry. Prices for third and fourth freedom transportation are not required to be filed for government approval and are subject to a minimum of regulatory control. The agreement does not include, and will not phase in, fifth freedom rights.<sup>74</sup>

<sup>73</sup> Canada Transportation Act. See Transportation Canada online information. Available at: [http://www.tc.gc.ca/Actsregs/ct-1tc/ct\\_a.html](http://www.tc.gc.ca/Actsregs/ct-1tc/ct_a.html).

<sup>74</sup> The "fifth freedom" concerns the right of an airline to carry traffic between two countries outside its own country of registration as long as the flight originates or terminates in its own country of registration.

120. Increased code-sharing activity has resulted in a corresponding increase in the number and importance of code-share provisions in bilateral air agreements. While Canada's international scheduled air services policy does not provide an explicit statement regarding the negotiation of code-share rights, Canadian practice in this regard has generally been to seek the broadest and most liberal provisions possible, including "third country" code-sharing rights (e.g. Air Canada's code-share services between London and Brussels on British Midland).<sup>75</sup> Code sharing is not exempted from competition rules.<sup>76</sup>

121. In 2002, Canada eliminated its policy that had restricted scheduled air designations to one Canadian carrier in all non-U.S. international markets where the number of one-way scheduled passengers was below 300,000 passengers per year. All Canadian carriers may now apply to operate scheduled international services to any non-U.S. market provided that adequate rights are available under the relevant bilateral air agreement. The authorities expect this to encourage competition and promote international travel options for Canadians.

122. International passenger charter air services are generally regulated on the basis of a "country of origin" regime rather than bilateral treaties. Canada usually applies its charter regulations to Canadian-originating charter services, whether Canadian- or foreign-owned, with foreign-originating charter services governed by foreign rules. In April 2000, a new policy eliminated restrictions such as minimum-stay requirements, advance booking, and prohibitions on one-way travel.<sup>77</sup> The requirements to charter the entire capacity of an aircraft, and the prohibition of direct sales to the public by an air carrier were retained. Foreign charter carriers are permitted to provide service between Canada and their home country under the same conditions as Canadian charter carriers, provided acceptable reciprocity exists for Canadian air carriers.

123. The new policy adopted in April 2000 also envisages the possibility for charter traffic moving directly between Canada and another country to occasionally be carried by an airline of a third country. The permission for foreign carriers to operate such charter services is assessed on a case-by-case basis and is based on reciprocity of opportunity for Canadian charter air carriers. However, the interests of Canadian travellers in having access to such services will have to be balanced with the interests of the third and fourth freedom (i.e. the Canadian and foreign) scheduled and charter carriers that may be affected.

124. The Federal Government has to a large extent withdrawn from involvement in infrastructure management, leading to the commercialization of main airports and the air navigation system, and the decentralization of responsibilities for smaller airports. Although the Federal Government retains ownership of the 26 airports within the National Airports System (NAS), responsibility for the operation and management of 23 of them is in the hands of not-for-profit airport authorities through 60-year leases. Airport authorities finance themselves through charges levied on passengers and aircraft operators and seek capital from financial institutions and the bond markets. A private corporation, NavCanada, operates all of the air navigation operations as a not-for-profit monopoly. NavCanada is responsible for air traffic services, community aerodrome radio services, aeronautical telecommunications, information services, and air traffic control; NavCanada funds itself through charges levied on carriers.<sup>78</sup>

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<sup>75</sup> Transport Canada, "Canada's Policy for International Scheduled Air Services" [Online]. Available at: <http://www.tc.gc.ca/pol/en/airpolicy/intlairpolicy/policyscheduledairservices/iaprdocumentpartone%20.htm>.

<sup>76</sup> See subsection 4(2) of the Canada Transportation Act, available online at: <http://laws.justice.gc.ca/en/c-10.4/23194.html>.

<sup>77</sup> Transport Canada, Press Release 4 April 2000, available online at: <http://www.tc.gc.ca/pol/en/airpolicy/Intlcharterpolicy.htm>.

<sup>78</sup> Transport Canada (2001).

125. According to the authorities, airport access and slot allocation are generally granted on a first-come, first-served basis at airports that are not slot constrained. Canada's only fully allocated slot controlled airport is Toronto's Lester Pearson International Airport, Canada's largest airport. The authorities have indicated that slots at Pearson Airport are managed by a not-for-profit organization that follows the slot allocation guidelines established by the International Air Transport Association (IATA). Air Canada has a ground-handling monopoly at Terminal 2 in Toronto, where it is the sole tenant.

126. The Canadian Air Transportation Security Authority Act (part of the Budget Implementation Act, 2002 Bill C-49) of March 2002 established the Canadian Air Transport Security Authority. The Authority will take responsibility for all screening equipment and security services at airports, which were previously the airlines' responsibility.<sup>79</sup>

127. Canada's air transport commitments under GATS are limited to aircraft repair and maintenance services, and computer reservation systems. As discussed in its previous Review, in 2000, Canada has not bound consumption abroad of repair and maintenance services, thus retaining the possibility of requiring carriers to use domestic repair providers and maintenance facilities. Operations outside of Canada may only be used if they are a "sub-organization" of those who have been certified in Canada.<sup>80</sup> However, in practice, Canada has concluded agreements with certain other countries recognizing the certifications of these countries for providers doing repair, overhaul, and maintenance work within their borders on Canadian aircraft and components. Thus aircraft maintenance and repair services have been listed as MFN exemptions under Article II of the GATS. The sale and marketing of air transport services have also been listed as an MFN exemption, as these services can be included in bilateral air agreements.<sup>81</sup>

### (iii) Competition policy developments

128. In October 1999, the Competition Bureau expressed the view in that very significant competition concerns would develop in the domestic market as a result of a dominant carrier emerging from the purchase of Canadian Airlines by Air Canada.<sup>82</sup> As part of the conditions for this merger, in 2000 Air Canada was required to: surrender peak hour slots at Pearson; surrender gates, bridges, and counters at airports with facilities constraints; make frequent flyer points and interline and joint fares available to other Canadian carriers; delay commencing a discount carrier in eastern Canada, and offer a regional carrier for divestiture. Although smaller airlines have been able to enter the market and provide some competitive alternatives, especially in the regional and "no frills" services, in December 2002 Air Canada retained close to 70% of the domestic market.

129. The Minister of Transport recognized these competition concerns, and committed to fostering as much competition as possible within the Canadian airline industry.<sup>83</sup> In July 2000, Bill C-26 was passed giving both the Competition Bureau and the Canadian Transportation Agency increased power to address concerns regarding competition in the airline industry (Chapter III(4)(i)). In addition a

<sup>79</sup> Transport Canada online information. Available at: [http://www.tc.gc.ca/mediaroom/releases/nat/2002/02\\_h035e.htm](http://www.tc.gc.ca/mediaroom/releases/nat/2002/02_h035e.htm).

<sup>80</sup> Transport Canada online information. "Air Transportation Services", February 2001. Available at: <http://www.tc.gc.ca>.

<sup>81</sup> WTO document GATS/EL/16 15 April 1994.

<sup>82</sup> Letter from the Commissioner of Competition to the Transport Minister, 22 October 1999 [Online]. Available at: <http://strategis.ic.gc.ca/SSG/1/ct01638e.html>.

<sup>83</sup> See "Canada's Policy For International Scheduled Air Services, Issues For Discussion", available online at: <http://www.tc.gc.ca/pol/en/airpolicy/IntlAirPolicy/PolicyScheduledAirServices/IAPRDocumentintro%20.htm#Context>.

review of Canada's international air policy was launched in December 2000, with an expected liberalization of the policy to take effect at the end of October 2001. Accordingly, Transport Canada sought the views of Canadian stakeholders on how Canada's policy for international scheduled air services should be liberalized. In March 2001, the Competition Bureau launched an application to the Competition Tribunal alleging predatory conduct by Air Canada against two of its smaller competitors. The case was pending in late 2002.

130. In May 2001, the Commissioner stated that "The new provisions introduced to the Competition Act to respond to potentially anti-competitive behaviour on the part of Air Canada are helpful, but will not on their own be sufficient to create a competitive domestic airline market." For this to occur, he reiterated his earlier recommendations that the domestic market be opened to greater foreign competition.<sup>84</sup> In particular, he recommended the creation of a new class of licensee under the CTA to allow 100% foreign ownership of carriers that can fly only within Canada; legislative changes to the CTA to allow modified sixth freedoms, either on a unilateral or reciprocal basis<sup>85</sup>; and changes to permit up to 49% of the voting shares of a Canadian carrier to be held by foreigners.

131. In June 2002, the Government passed further amendments to the Competition Act to strengthen "cease and desist" orders against predatory behaviour by a dominant carrier, and to authorize the application of substantial fines as a deterrent to such behaviour. As was suggested by participants in Canada's previous Review, multilateral air transport liberalization could also benefit Canadian consumers while expanding international market opportunities for the national flag carrier(s).

## **(8) FINANCIAL SERVICES**

### **(i) Introduction**

132. Canada's main federal financial legislation includes the Bank Act, the Trust and Loan Companies Act, the Insurance Companies Act, and the Cooperative Credit Associations Act.<sup>86</sup> These laws are supplemented by regulations and guidelines developed by the Office of the Superintendent of Financial Institutions (OSFI), which is in charge of federal financial regulation and supervision.<sup>87</sup> Credit unions, mutual funds, and securities firms in several provinces are regulated by provincial laws.<sup>88</sup> Insurance and trust and loan companies are regulated at both the federal and provincial levels.

133. Canada's financial legislation is subject to review every five years. As a result of the last review, in February 2001 the Government introduced legislation to reform the legislative framework for the financial services sector. Bill C-8 – An Act to establish the Financial Consumer Agency of Canada and to Amend Certain Acts in Relation to Financial Institutions, came into force in October 2001. The new law widens the activities that foreign banks may undertake in Canada, and enhances the possibilities for direct investment in banks and insurance companies, including for foreign firms.

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<sup>84</sup> Competition Bureau online information. Konrad von Finckenstein Commissioner of Competition. Remarks to The House of Commons Standing Committee on Transport and Government Operations. 8 May 2001. Available at: <http://strategis.ic.gc.ca/SSG/ct02181e.html>. See also the Letter of 22 October 1999, available at: <http://strategis.ic.gc.ca/SSG/1/ct01638e.html>.

<sup>85</sup> A modified 6th freedom right would allow foreign carriers to pick up passengers in Canada and fly them to another Canadian city via a U.S. destination.

<sup>86</sup> These laws are available online at: <http://laws.justice.gc.ca/en/B-1.01/1884.html>.

<sup>87</sup> OSFI online information. Available at: <http://www.osfi-bsif.gc.ca>.

<sup>88</sup> A list of provincial and territorial regulators is available in OSFI's online information.

134. The new regulatory framework gives bank financial groups the option of organizing their business in Canada under a holding-company structure. Under the new regime, a bank holding-company structure is an incorporated entity, which allows banks the choice of moving certain activities that are currently conducted in-house, or in a subsidiary of the bank, to an affiliate outside the bank. Depending on the risk posed by the affiliate entity to the holding company, the affiliate could be subject to lighter regulation than that of the bank. The entire group continues to be overseen and supervised on a risk basis in order to safeguard regulated affiliates.

135. The same ownership regime and range of permitted investments apply to banks and bank holding companies. As a general principle, any activity carried out by a financial institution (e.g. banking, insurance, securities dealing) can be carried out through a subsidiary of the financial institution or of its holding company.<sup>89</sup> However, domestic banks are not allowed to engage in auto-lease financing.<sup>90</sup>

136. An additional change introduced by Bill C-8 was the decision to expand access to the payments system to certain non-deposit taking institutions. Previously, access to the payment system was available solely to deposit-taking institutions. Under the new regime, access is allowed to life insurance companies, money market mutual funds, and securities dealers. Permitting these types of financial institutions to join the payment systems enables them to expand the range of services offered to their clients, e.g. life insurance companies may now offer payment services that are basically similar to those provided by banks or deposits accounts.

137. Canada's GATS market access and national treatment commitments cover the full spectrum of financial services. These commitments are undertaken in accordance with the Understanding on Commitments on Financial Services.<sup>91</sup>

## **(ii) Banking services**

138. As of October 2002, there were 15 domestic banks, 33 bank subsidiaries of foreign banks, 20 foreign bank branches, and 29 foreign bank representative offices operating in Canada. Canada's six major domestic banks account for 92% of the assets held by the banking industry, whilst foreign banks account for 6.2% of assets.<sup>92</sup>

139. The five major domestic banks also have a significant presence outside of Canada, in areas such as the United States, Latin America, the Caribbean, and Asia. International operations accounted for approximately 35% of revenues and 40% of net income earned by those banks in 2001. Canada's largest bank was 48<sup>th</sup> world-wide by asset size as of July 2002.

140. Canada offers a generally liberal environment for foreign suppliers in the banking sector, including a policy of national treatment towards branches, subsidiaries, and other operations of foreign banks. There is no limitation on cross-border supply or consumption abroad of banking services, although foreign financial suppliers must establish a commercial presence in order to solicit business. A number of limitations concerning commercial presence are described below.

<sup>89</sup> See Banks Act, Part IX (Investments), section 468(1); and Part XII (Foreign Banks), section 522.08.

<sup>90</sup> See Banks Act, Part VII (Business and Powers), section 517; and Part IX (Investments), section 464 (1).

<sup>91</sup> WTO document GATS/SC/16/Suppl.4/Rev.1, 6 June 2000.

<sup>92</sup> Canadian Bankers Association, (2001).

(a) Regulatory framework

141. Bill C-8 introduced a new size-based ownership regime for Canadian banks in October 2001. Canadian federally regulated banks are now divided into three sub-groups depending on the size of equity. The first comprises "large" banks (i.e. with equity of Can\$5 billion or more). The "widely-held" rule states that no single person (Canadian or foreign) may acquire more than 20% of the voting shares or 30% of the non-voting shares in a large bank. Until 2001, the threshold was 10%. This increase in the maximum single ownership ratio was designed to allow banks to enter into substantial share exchanges, in order to solidify strategic alliances and joint ventures.

142. However, the prohibition remains against any single entity, domestic or foreign, acquiring control of a large bank. There are certain limited exceptions to the control requirement, including for entities such as a widely held regulated bank-holding company or for a foreign bank that controls a Canadian bank subsidiary that has grown through the Can\$5 billion threshold. The Guidelines Respecting Control in Fact (Bank Act) set out the policy objectives and factors that the Minister would consider in assessing an application to acquire more than 10% of the shares of a large bank.<sup>93</sup> There have not been any applications of this type since the legislation came into force in 2001.

143. The second sub-group consists of banks with equity between Can\$1 billion and Can\$5 billion, which are allowed to have individual shareholdings of up to 65%, provided that at least 35% of voting shares are listed and posted for trading on a recognized exchange and are widely-held; and the third sub-group comprises small banks (i.e. with equity of less than Can\$1 billion) that have no ownership restrictions other than "fit and proper" tests.

(b) Foreign bank branches and subsidiaries<sup>94</sup>

144. In 1999, new foreign branching legislation was passed under the title of Authorized Foreign Banks in Part XII.1 of the Bank Act, supplemented by OSFI regulations and guidelines. It abolished the requirement for foreign bank subsidiaries to request ministerial approval to establish more than one location. Under this legislation, described in Canada's previous Review, foreign banks can establish full-service branches and/or lending branches. Full-service branches are permitted to take deposits greater than Can\$150,000 (i.e. non-retail deposits). Lending branches may lend in Canada but are not permitted to take any deposits and are restricted to borrowing from other financial institutions, not from the Canadian public.<sup>95</sup> In addition, foreign bank subsidiaries that do not have any deposits of less than Can\$150,000 may opt out of Canada Deposit Insurance Corporation (CDIC) coverage. Usually, these foreign banks convert their operations into branches, but they have the option to remain subsidiaries without having to pay CDIC premiums.

145. A foreign bank may establish a lending branch, a full-service branch, a bank subsidiary, a loan company, or a trust company. A foreign bank is allowed to operate concurrently a full-service and a lending branch. The guidelines developed by OSFI require a foreign bank wishing to establish a full-service or lending branch to have a minimum of Can\$5 billion in world-wide assets. Full-service branches and lending branches are required to maintain a deposit with a Canadian financial institution approved by OSFI. The deposit for full-service branches is set at 5% of branch liabilities, or Can\$5 million, whichever is greater. Lending branches must maintain a deposit of Can\$100,000.

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<sup>93</sup> See the issue *Canada Gazette*, Part II, 8 May 2002 [Online]. Available at: <http://www.gc.ca/gazette/part2/pdf/g2-13610.pdf>.

<sup>94</sup> Under the Bank Act, domestic banks are referred to as "Schedule I" banks. Schedule II banks are the foreign bank subsidiaries, and Schedule III are the branches of authorized foreign banks.

<sup>95</sup> See Department of Finance Canada online information. Available at: [http://www.fin.gc.ca/toce/2001/bank\\_e.html](http://www.fin.gc.ca/toce/2001/bank_e.html).

146. The 1999 branching legislation precluded authorized foreign banks (i.e. foreign banks that have established branches under the 1999 foreign bank branching regime) from providing specialized business management or advisory services through their branches in Canada. The C-8 legislative framework provides for authorized foreign banks to engage in these activities; however, implementing legislation has yet to be drafted. The new framework also expands the scope of specialized financing entities in which foreign banks are permitted to invest. For foreign banks, the definition of a specialized financing entity is set out in the Bank Act in subsection 507(1) and in the Specialized Financing (Foreign Banks) Regulations. The authorities have indicated that these regulations mirror the specialized financing regulations for domestic institutions, in order to provide a level playing field between foreign and domestic participants.

**(iii) Insurance services**

147. In 2000, Canada's life and health insurance industry comprised some 120 firms, down from 163 companies at the end of 1990. As a result of this consolidation, the five largest companies represent over 59% of the domestic market in terms of premiums, up from 38% in 1994. Premium income reached approximately Can\$45 billion in 2000. Much of the consolidation activity has involved foreign insurers selling their operations to Canadian insurance companies, although there has also been significant merger and acquisition activity among Canadian companies.

148. In 2000, 71 companies were incorporated in Canada and accounted for 91% of total premiums collected in Canada. In October 2002, there were 108 federally registered health and life companies, of which 60 were branches of foreign companies. There were also 24 fraternal benefit societies, 13 Canadian and 11 foreign.

149. In October 2002, there were 195 federally registered property and casualty (P&C) insurance firms and about 90 provincial ones. Federally registered P&C companies earned premiums of approximately Can\$21 billion in 2001, while provincially incorporated firms earned Can\$7 billion. Foreign companies have a strong position in Canada's P&C market, as seven of the ten largest insurers in 2001 were foreign owned, and accounted for 64 % of net premiums earned.

150. Canada's life and health insurance sector is also relatively export oriented. For example more than half of life and health premium income (some Can\$50 billion in total) is generated from foreign sources. Thus, market access abroad is essential for the Canadian life and health insurance industry. In contrast, only 2% of the property and casualty insurance premiums are generated abroad.

151. Canada did not make new multilateral commitments in the area of insurance within the context of the Fifth Protocol to the GATS on financial services.<sup>96</sup> In general, commercial presence is required to offer insurance, reinsurance, and retrocession services in Canada, except for marine insurance. A foreign company may incorporate as a separately capitalized subsidiary, or a branch, or establish a new insurance business; it may also acquire an existing Canadian enterprise, subject to notification and prior government review. A number of federal and provincial market access and national treatment limitations to foreign participation in the insurance market are described below.

152. A number of restrictions, including residency and nationality requirements, which may limit foreign participation in the provision of broking and agency services, have also been listed in Canada's GATS Schedule.

<sup>96</sup> WTO document GATS/SC/16/Suppl.4/Rev.1, 6 June 2000.

(a) Business regulations

153. Foreign insurers must be approved as federally authorized companies to insure risks in Canada. Insurance companies may incorporate either under federal or provincial law. About three quarters of Canada's life insurance companies (90% of total premium income) and two-thirds of the P&C insurance companies (75% of total premium income) are federally incorporated. Depending on the provinces, there are two ways to incorporate, either through an incorporation regime already in place or through the legislative process. For example, In Nova Scotia, incorporation of a local insurance company must be done through a legislation process. In New Brunswick, a provincially incorporated insurance company must also be constituted by a special legislation. New insurance legislation is being developed in both provinces. In Alberta, foreign insurers must be approved federally to operate in the province.

154. All insurance companies, whether federally or provincially incorporated, must be licensed in each province where they do business. They are also generally subject to market regulation by the province in which they carry on business, although some provinces (e.g. New Brunswick) rely on OSFI for market regulation as well as financial solvency regulation. Market regulation covers the type of insurance products, the setting of rates, standards of competence and behaviour of insurance agents and brokers. Agents or brokers must also be registered or licensed in each province, in order to do business in that province.

155. In an attempt to achieve uniformity among provincial regulatory regimes in the life and health insurance sector, the provinces through the Canadian Council of Insurance Regulators have established the Uniform Life Insurance Act, which is a model law governing insurance contracts and beneficiary rights. The authorities indicated that all provinces excluding Quebec have adopted the Uniform Act; however, they also noted that Quebec's regulations in this area are very similar.

156. In contrast with the general rule applicable to Canadian corporations, which are taxed on their world-wide income and enjoy a tax credit for taxes paid abroad, life insurers incorporated in Canada (both Canadian and foreign-owned, including branches) are taxed only on their income earned from carrying on business in Canada, a measure designed to ensure that Canadian life insurance companies can compete in foreign markets.

(b) Commercial presence

157. Foreign companies may either incorporate in Canada as a subsidiary or establish a branch of a foreign insurance company. A foreign company operating as a branch may only write premiums based on capital deposited in Canada. OSFI requires that branches of foreign P&C insurance companies maintain, at all times, trustees assets equivalent to their liabilities in Canada plus a minimum capital and surplus margin of 10% of liabilities. Branches of foreign companies must therefore vest in total at least 110% of liabilities in order to do business in Canada. These requirements apply to federally registered foreign insurance companies. The Deposit Adequacy Test (DAT) requirements were to be replaced by the Branch Adequacy of Assets Test (BAAT) effective January 2003. The authorities noted that the impact of the BAAT on the insurance industry is intended to be the same as the DAT even though, on a company basis, the BAAT requirements can be slightly different from the DAT requirements.

158. Foreign investment through acquisition of a domestic insurance company with the exception of non-resident insurers and life insurers that have business both inside and outside of Canada, is subject to prior notification and approval. Under the Investment Canada Act, the Federal Government reviews and may approve all foreign direct acquisitions of insurance companies with assets above Can\$5 million, and Can\$50 million for indirect acquisitions. If the assets in Canada are 50% or more

of the assets of the targeted company for indirect acquisitions, the acquisitions are deemed to be direct and therefore, the threshold of Can\$ 5 million applies.

159. Certain provinces may also restrict such acquisitions. Under Quebec's *Loi sur les assurances*, non-residents (of Canada) may be prevented from acquiring more than 30% of the voting shares of a Quebec-chartered insurance company. In 2001, the Quebec Government proposed to abolish this provision. In British Columbia, incorporation, share acquisition or application for business authorization, where any person controls or will control 10% or more of the votes of the company, is subject to ministerial approval.

160. Under the new financial services legislation (Bill C-8 described above), a new ownership regime allows for larger individual shareholdings in large insurance companies since December 2001. Specifically, for insurance companies that had equity and surplus in excess of Can\$5 billion prior to their demutualization in 1999-00<sup>97</sup>, individual investors may now own up to 20% of any class of voting shares or 30% of any class of non-voting shares. Under the previous regime, no individual could own more than 10% of any class of shares. Acquisition of shareholdings in these companies, however, remains subject to ministerial approval. The Guidelines Respecting Control in Fact (Insurance Companies Act) set out the policy objectives and factors that the Minister would consider in assessing an application to acquire more than 10% of the shares of one of these companies. Two companies are subject to these rules. Their total premium income was Can\$13.8 billion at the end of 2001.

161. Any other stock insurance company need not be widely held. However, all insurance companies are required to list and post for trading 35% of their voting shares on a recognized Canadian stock exchange if equity exceeds Can\$1 billion. Closely held insurance companies would be allowed to grow beyond Can\$5 billion in equity without any ownership restrictions, other than the 35% requirement.

162. A number of provinces, including British Columbia, Manitoba, Quebec, and Saskatchewan maintain publicly owned monopolies for car insurance. In Quebec, while automobile insurance for corporal damage is public, insurance for material damage is private.

(c) Cross-border supply

163. As noted above, companies wishing to provide insurance services in a given province must be licensed by the province's insurance authority, and cross-border supply of unlicensed companies is not permitted. However, in order to meet coverage requirements, notably those needed by large companies, access to foreign (unlicensed) coverage is possible in certain cases. In those cases, cross-border supply of insurance services is generally conditional on the refusal of local companies to cover the risk. In New Brunswick, sale of products of unlicensed insurers is permitted but limited to fire and marine insurance. An unlicensed insurer may affect insurance in Alberta if it is unsolicited, and the insured pays a fee to the Province of Alberta equal to 50% of the premium paid. In Saskatchewan, the applicable rate is 10%.<sup>98</sup>

<sup>97</sup> In 1999, legislation was passed to permit large federally regulated mutual life insurance companies to convert into stock companies, a process known as demutualization. Canada's four largest mutual insurance companies subsequently demutualized.

<sup>98</sup> See also WTO document GATS/SC/16/Suppl.4/Rev.1, 6 June 2000.

164. Further, under Part I of the Excise Tax Act, a federal excise tax of 10% is applicable on premiums paid to unauthorized foreign direct non-life insurers (except marine insurance) on risks within Canada, unless such insurance is deemed not to be available in Canada.<sup>99</sup>

(d) Reinsurance services

165. Federally registered foreign companies wishing to supply reinsurance services must establish a subsidiary or a branch, and cross-border supply is not generally permitted. In cases where it is permitted, the purchase of reinsurance services by a Canadian direct non-life insurer from a non-resident reinsurer is limited to no more than 25% of the risks undertaken by the insurer purchasing the reinsurance; if the reinsurance is purchased from a resident reinsurer, the limit is 75% of the risks.<sup>100</sup> Similar provisions apply in respect of life insurance.

166. Similarly to the requirements for direct P&C insurance, branches of foreign reinsurance companies insuring Canadian risks must also vest assets at least equal to 110% of liabilities ceded by the company. In August 2001, the OSFI amended the standard reinsurance trust agreements (RTAs) to be used by insurers in respect of cessions to unregistered (foreign) reinsurers. In particular, the share was reduced from 115% to 110%.

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<sup>99</sup> See Excise Tax and Special Levies Notice, 18 February 1998.

<sup>100</sup> WTO document GATS/SC/16/Suppl.4/Rev.1, 6 June 2000.

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