# A New Trade Relationship: Canada and the EU – Forestry, Minerals and Metals

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### Chapter 1 – Introduction

Given that Canada's prosperity is based upon its ability to participate in an open and accessible international trading system, trade liberalization has been at the centre of Canada's trade strategy since the end of the Second World War (Cameron and Loukine, 2001). With the aim of making Canada a good trading partner and a better place to do business, Canada's trade strategy has included broadly-based, multilateral liberalization at the GATT and now the WTO level, as well bilateral trade and investment liberalization opportunities. In fact, Canada's activity at the multilateral level has been highly supplemented by regional trade agreements (including bi-, tri- and pluri- lateral agreements) with various trading partners.

Why pursue regional trade agreements (RTA's)? For nations such as Canada, whose domestic markets are too small to sustain long-term growth or to take advantage of economies of scale, access to a larger market, as is provided by a regional trade agreement or organization, can be crucial to the further development of such economies (Yeung et al, 1995). RTA's are a means of increasing the national welfare of member nations and of promoting intra-regional trade, thereby increasing economic development. In fact, due to its unique RTA relationship with the United States, Canada engages in six times the level of trade than it would if its trade were proportional to its share in global GDP (Yeung et al, 1995).

The relationship between regional trade agreements and the multilateral trading system is cause for much controversy. However, proponents of RTA's believe they are an effective means of enhancing global welfare (Summers, 1991). As the pace and momentum of the multilateral system has slowed some forms of RTA's provide an accelerated means of general liberalization (Yeung et al, 1995). RTA's can promote and complement multilateral liberalization as it fosters the lifting of trade restrictions between nations. In other words, RTA's supplement the WTO, not supplant it.

Hence an important cornerstone of Canadian foreign policy has been the pursuit and completion of RTA's as a means to achieve the open markets and liberal trade regimes so critical to the Canadian economy, at an expedited pace than that of the multilateral system. Canada's goal in each of these agreements has been a simple one: gain as much access to the markets as possible for competitive Canadian producers, workers, and investors, and secure that access with balanced, mutually advantageous rules. In return, Canada has opened its own market to the same extent, to the benefit of Canadian firms and consumers — who gain access to capital, goods, and services in greater variety and at world prices (Cameron and Loukine, 2001). The positive effects of open markets are clearly evident in the strong growth of the Canadian economy over the past half-decade in particular — indeed, the growth of Canada's real GDP since 1989 is second only to the US among all the major industrialized countries. Our exports have benefited substantially from the economic expansion of our American free trade partner. Between 1989 and 1998, our total trade with the US (exports plus imports) rose a spectacular 140 per cent — from $235 billion to $564 billion. Or put another way, Canada-US trade now exceeds a million dollars a minute[1].

[1] Canada's Growing Economic Relations with the United States: Part 1 — What are the key dimensions?, *The Micro-Economic Monito*r, 2nd Quarter 1999, Industry Canada.

RTA's, specifically NAFTA and its predecessor CUSTA, have served Canada well. Fully 87% of Canadian exports in goods are destined for the US. It is said that when the United States coughs, Canada catches a cold. Such is the degree of Canada's reliance on its southern neighbour as the largest export market for Canadian goods and services.

Herein lies the dichotomy – despite the impressive benefits of free trade with the United States, there is also an inherent hazard associated with having all our trade 'eggs in one basket'. Diversification via the strengthening of trading relations with other trading partners would be a prudent policy objective to reduce vulnerability from overexposure to US markets. In this way, trading resources can be shifted to take advantage of differences in the business cycles of nations, as would have been desirable during the current US economic downturn. This is not to say that trade with the US should be diminished. On the contrary, increased trade with the US is a good thing; however, if trade can be increased with other non-US regions, then so much the better for Canada (Cameron and Loukine, 2001).

To this end, the Canadian Government has pursued bilateral free trade initiatives with individual trading partners in Latin and Central America, and has engaged in negotiations to establish a Free Trade Agreement of the Americas (FTAA). However, the most obvious candidate for another major free trade agreement is the European Union (EU) — Canada's second largest trading partner after the US (Ibid).

The recent Parliamentary Sub-Committee report "Crossing the Atlantic: Expanding the Economic Relationship Between Canada and Europe' recommended that "the Government of Canada significantly elevate Europe's status in its global trade and investment list of priority regions. A concerted and effective initiative to augment our trade and investment with the countries comprising Europe and to deal more effectively with existing bilateral trade barriers and irritants is required as soon as possible".

This report is a first step in trying to implement this recommendation for the Canadian natural resource sector, particularly in forestry products and mining/non-ferrous metals. Dealing effectively with bi-lateral trade barriers and irritants requires a strategy to manage the trade relationship. The development of a trade management strategy requires an analysis of the issues, framework, structure and flows within these sectors, culminating in the ability to utilize a proactive approach towards upcoming trade negotiations.

Chapter 2 of this paper will discuss in general, Canada's trade in forestry products and mining/non-ferrous metals with the EU. A synopsis of general trade, investment activity, tariff levels, ongoing disputes and irritants will be provided. The EU's trade policies regarding each sector will also be discussed.

Chapter 3 will specifically discuss the forestry products sector, with an overview of relevant EU policies, barriers to trade, regulatory issues, geo-political concerns, and opportunities for harmonization.

Chapter 4 will focus on the Mining/Non-ferrous Metals sector and discuss relevant EU policies, barriers to trade, investment climate, and other issues of relevance to the sector. The steel and iron ore industries have been excluded from this discussion.

Chapter 5 will provide assessments and recommendations regarding a Canadian strategy in managing its natural resources trade relationship with the EU based on an analysis of the EU's concessions in trade relationships with other nations.

## Chapter 2. Canada's Trade with the EU

Canada's international economic relationships are heavily dominated by the United States with an 87% share of Canada's total trade. It is thus, no surprise that the US takes centre stage in any discussions regarding Canada's trading activity. However, such single-minded focus in trade can be myopic as other valuable and beneficial relationships are often overlooked as a means of diversifying Canada's international trade.

The European Union is Canada's second largest export market, with roughly a one-third share of Canada's non-US trade, or five percent of total trade as illustrated by Table 1.

**Canadian Total Exports, United States and European Union, 1997 - 2001**

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| | | | Percent share | | |
| United States (U.S.) | 81.82% | 84.76% | 86.76% | 87.02% | 87.33% |
| EUROPEAN UNION (Total) | 5.18% | 5.09% | 4.66% | 4.63% | 4.51% |
| SUB-TOTAL | 87.00% | 89.85% | 91.41% | 91.65% | 91.85% |
| OTHERS | 13.00% | 10.15% | 8.59% | 8.35% | 8.15% |
| TOTAL (ALL COUNTRIES) | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

*Source: Strategis Canada database*

Table 1

In absolute terms, the value of Canada's trade with the European Union continues to rise. Two-way trade in goods and services totalled $73.8 billion in 2000, up just over 100% from 1991. Canada's merchandise exports to the EU was valued at $21.0 billion while our imports, which have grown since 1991, stood at $33.6 billion. Exports of services in 2000, in the order of $8.9 billion (against imports of $10.3 billion), were also significant. Over the years, merchandise exports to Europe have displayed moderate growth: a 75% increase, in absolute terms, over the 1993-2000 period[2].

Excluding our neighbour to the south, the EU accounted for 47% of export growth between 1990-98, double the growth of exports to the Asian Tigers over that period. Exports to Europe have risen, on average, by at least $1 billion per year over the past six years — a not insignificant amount, though as Bertin Côté (Assistant Deputy Minister, Europe, Middle-East and North Africa, DFAIT), remarked to

[2] Crossing the Atlantic: Expanding the Economic Relationship Between Canada and Europe, Interim Report of the Standing Committee on Foreign Affairs and International Trade and the Sub-Committee on International Trade, Trade Disputes and Investment, June 2001.

the Sub-Committee, one year's growth in exports to the U.S. would exceed total Canadian exports to the EU.[3]

Trade in goods between the two regions was fairly steady over the early 1990s; however, starting around 1994, imports from the EU began to rise appreciably. By 1999, import levels from the EU were almost double their levels recorded in 1993. On the other hand, Canadian exports of goods to the EU appear to have only experienced a "step up" from $12 billion to the $16 billion level between 1990-1994 and 1995-1999.[4] The combination of steadily rising imports from the EU and slower growth in Canadian exports to Europe has exacerbated Canada's merchandise trade deficit with Europe over the past decade. Canada's merchandise trade deficit widened some $11 billion over the 1990s, from $4.3 billion to $15.4 billion.[5]

Despite the impressive values of exports and export growth, in actuality, the EU's market share of Canadian exports of goods and services has been declining steadily over a gradual period, particularly in light of the increasing market share of the US. First, the EU's share of total Canadian exports of both goods and services has been declining, having fallen from 13.2% in 1980 to 6.3% in 2000, as Canadian businesses have tended to concentrate on the United States market within the free trade environment.

Table 1 illustrates the past five years in this long-term trend of gradual decline in the Canada-EU trade relationship. Although still having a significant absolute impact on their economies in terms of value, Canada and the EU are gradually becoming less important export markets for each other, relative to other trading partners. The importance of the EU to Canadian exporters is diminishing and is also decreasing in importance as a source of Canadian imports. Within this context, Europe's share of Canada's exports is declining at a faster pace than Europe's share of Canada's total merchandise imports.[6]

In terms of foreign direct investment (FDI) has become the most dynamic element of the transatlantic economic relationship. In 2000, the stock of Canada's cumulative direct investment in the EU amounted to $56.5 billion, with that of investment from the EU totalling $77.9 billion. The latter figure includes a substantial increase of $28.3 billion from the 1999 results, owing mainly to French company Alcatel's purchase of the Kanata, Ontario-based Newbridge Networks, and the sale of Seagram Co. to Vivendi SA, also of France. This increase in French investment in Canada meant that in 2000 they surpassed Canada's traditional number-two source of FDI, the United Kingdom.[7]

Even if one recognizes that 2000's jump in FDI may have been atypical, Canada has enjoyed strong growth in investment with Europe during the past decade. Canadian investment in Europe rose by a more than healthy 174% over the 1990-2000 period, a rate of growth that exceeded the comparable figure for the U.S. (157%). In 2000, Europe accounted for almost 19% (up from 12% in 1983) of direct

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[3] Ibid.
[4] Cameron, Bill, DFAIT, Canada - European Union Trade and Investment Relations The Impact of Tariff Elimination, February, 2001
[5] Ibid.
[6] Ibid.
[7] Crossing the Atlantic: Expanding the Economic Relationship Between Canada and Europe, Interim Report of the Standing Committee on Foreign Affairs and International Trade and the Sub-Committee on International Trade, Trade Disputes and Investment, June 2001

Canadian investment abroad. How this growth in investment will be affected by the bursting of the high-technology bubble in late 2000 and early 2001 remains to be seen.[8]

Increasingly, it has become accepted that investment has overtaken trade as the most important market penetration strategy available to business. Typically, the motivation behind FDI has been either to service the target market more easily or, in certain instances, to bypass trade barriers by setting up operations in that market. What has also become recognized is that, as a general rule, trade has tended to follow investment.[9]

Two-way investment between Canada and the EU has been displaying strong growth despite the fact that tariff barriers have been in a state of decline for several decades. In other words, investment is not being driven by the presence of barriers to market access. Instead, companies like Bombardier have invested in Europe because they have found that a local presence is essential to serve that market. Investing in order to act like a local company decreases the likelihood that increased trade will result from investment (though, of course, strong sales to the EU will always help a firm's bottom line). What is important for Canada is the extent to which Canadian investments in Europe are facilitating the overseas exports of Canadian products, including parts and components to the production process, rather than simply contributing more to transactions of an intra-European nature.[10]

In its recent report, 'Crossing the Atlantic: Expanding the Economic Relationship Between Canada and Europe', the Standing Committee on Foreign Affairs and International Trade stated:

> We ignore Europe's sizeable potential at our peril, however. Europe, in the words of William Clarke (Assistant Deputy Minister, International Business and Chief Trade Commissioner, DFAIT), is a "huge and sophisticated market" whose recent economic performance continues to be positive and whose future looks promising, given the economic integration now occurring. It is a key market for Canada, even if the bilateral trade and investment relationship is overshadowed by the existing economic link with the U.S.
>
> Not only does the EU give Canadian companies access to 376 million individuals, it is also the world's second largest economy, with its GDP of US$8.9 trillion accounting for 20% of global output (the U.S., with a GDP of US$10 trillion, is the world's largest economy). Moreover, with exports totalling an estimated $1.2 trillion and imports at $1.3 trillion, the EU is the world's largest trader. These are impressive numbers.
>
> One should also not overlook the question of future membership in the EU, for it is widely expected that by 2010, the Union will have grown from its existing 15 members to almost 30 countries. Twelve (Poland, Hungary, the Czech Republic, Slovenia, Estonia, Cyprus, Latvia, Lithuania, the Slovak

[8] Ibid.
[9] Crossing the Atlantic: Expanding the Economic Relationship Between Canada and Europe, Interim Report of the Standing Committee on Foreign Affairs and International Trade and the Sub-Committee on International Trade, Trade Disputes and Investment, June 2001
[10] Ibid.

> Republic, Malta, Bulgaria, and Romania) are now undertaking to satisfy certain economic and social membership criteria, with the hope being that this task will be completed by 2004. The pace of accession negotiations varies according to the ease with which each country is absorbing the acquis communautaire (EU body of laws) into its own national law and practice. Managing this enlargement, which could result in a 33% increase in territory, a 30% gain in overall population to approximately 500 million, and a 100% increase in the EU's rural population, will undoubtedly prove to be the EU's most pressing challenge over the next decade. The implications of enlargement for European agricultural policy alone are enormous.
> *Source: 'Crossing the Atlantic: Expanding the Economic Relationship Between Canada and Europe'*

The efforts to focus more attention upon Canada-EU trade relations thus appear to have timely practicality in terms of strategic importance.

Within the framework of transatlantic trade between Canada and the EU, natural resources trade has a significant role, occupying a large portion of the Top 25 industries exporting to both Western and Eastern Europe. Table 2 provides a breakdown of Canada's Top 25 export industries to the EU, both for Western and Eastern Europe. In terms of exports to Western Europe, natural resources industries comprise eight of the top twenty five export industries in terms of percent share of total exports to the EU. These eight industries account for roughly one-quarter of all of Canada's total exports to the EU, and represent one-third of the Top 25 list (which accounts for roughly seventy five percent of all Canadian exports to the EU).

Although obviously an emerging market, the Eastern and Central European countries (ECE) should not be ignored as part of a long term trade strategy. Given their accession plans to the EU, these developing markets will contribute an additional 30% to the overall EU market as stated above.

## Table 2

**Canadian Total Exports to Europe, Western and Eastern, Top 25 Industries**

**Western Europe**

| Industry | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| | % Percentage | | | | |
| 33641 - Aerospace Product and Parts Manufacturing | 5.00% | 7.44% | 7.95% | 10.52% | 13.47% |
| 32211 - Pulp Mills | 10.49% | 9.74% | 9.86% | 12.62% | 8.87% |
| **33141 - Non-Ferrous Metal (except Aluminum) Smelting and Refining** | **8.53%** | **7.55%** | **6.25%** | **7.23%** | **7.89%** |
| **21239 - Other Non-Metallic Mineral Mining and Quarrying** | **0.41%** | **0.63%** | **3.46%** | **3.46%** | **3.83%** |
| 33411 - Computer and Peripheral Equipment Manufacturing | 3.08% | 2.59% | 2.75% | 3.84% | 3.64% |
| 33361 - Engine, Turbine and Power Transmission Equipment Manufacturing | 1.52% | 2.01% | 2.11% | 2.14% | 3.19% |
| 32212 - Paper Mills | 3.90% | 2.83% | 3.01% | 2.55% | 2.96% |
| 33331 - Commercial and Service Industry Machinery Manufacturing | 1.20% | 1.33% | 2.23% | 3.47% | 2.61% |
| 21221 - Iron Ore Mining | 4.03% | 3.85% | 3.54% | 2.75% | 2.52% |
| **32111 - Sawmills and Wood Preservation** | **3.99%** | **3.27%** | **3.21%** | **2.82%** | **2.22%** |
| **21211 - Coal Mining** | **2.15%** | **2.04%** | **1.65%** | **1.33%** | **2.07%** |
| **21229 - Other Metal Ore Mining** | **0.74%** | **0.65%** | **2.30%** | **2.10%** | **2.04%** |
| **33131 - Alumina and Aluminum Production and Processing** | **2.90%** | **2.48%** | **1.74%** | **1.68%** | **1.97%** |
| 31171 - Seafood Product Preparation and Packaging | 1.65% | 1.58% | 1.76% | 1.47% | 1.90% |
| 33421 - Telephone Apparatus Manufacturing | 1.72% | 2.23% | 2.70% | 3.97% | 1.87% |
| **21223 - Copper, Nickel, Lead and Zinc Ore Mining** | **3.59%** | **2.33%** | **2.33%** | **1.84%** | **1.78%** |
| 33451 - Navigational, Measuring, Medical and Control Instruments Manufacturing | 1.37% | 1.50% | 1.59% | 1.50% | 1.72% |
| 11114 - Wheat Farming | 2.53% | 1.95% | 1.81% | 1.18% | 1.56% |
| 33441 - Semiconductor and Other Electronic Component Manufacturing | 1.64% | 1.42% | 1.48% | 2.37% | 1.56% |
| 11113 - Dry Pea and Bean Farming | 1.30% | 1.22% | 1.35% | 1.36% | 1.32% |
| 32518 - Other Basic Inorganic Chemical Manufacturing | 0.93% | 0.74% | 1.19% | 0.90% | 1.31% |
| 32411 - Petroleum Refineries | 0.22% | 0.08% | 0.10% | 0.26% | 1.17% |
| 33329 - Other Industrial Machinery Manufacturing | 0.95% | 0.81% | 1.00% | 1.18% | 1.11% |
| **21222 - Gold and Silver Ore Mining** | **1.27%** | **2.10%** | **0.06%** | **0.23%** | **1.08%** |
| 11112 - Oilseed (except Soybean) Farming | 1.57% | 1.40% | 0.74% | 0.66% | 1.05% |
| **SUB-TOTAL** | 66.69% | 63.78% | 66.18% | 73.45% | 74.71% |
| **OTHERS** | 33.31% | 36.22% | 33.82% | 26.55% | 25.29% |
| **TOTAL (ALL INDUSTRIES)** | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

**Eastern Europe**

| Industry | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| | % Percentage | | | | |
| 31161 - Animal Slaughtering and Processing | 9.53% | 7.34% | 3.56% | 5.02% | 11.29% |
| 33329 - Other Industrial Machinery Manufacturing | 2.09% | 3.91% | 3.44% | 5.98% | 7.31% |
| **33313 - Mining and Oil and Gas Field Machinery Manufacturing** | **1.32%** | **1.04%** | **1.23%** | **2.64%** | **5.18%** |
| **21229 - Other Metal Ore Mining** | **0.52%** | **--** | **4.62%** | **5.48%** | **4.67%** |
| 32619 - Other Plastic Product Manufacturing | 2.01% | 3.38% | 3.70% | 3.89% | 3.78% |
| 33312 - Construction Machinery Manufacturing | 1.14% | 0.74% | 1.42% | 1.25% | 3.32% |
| 32541 - Pharmaceutical and Medicine Manufacturing | 2.63% | 2.35% | 4.08% | 3.83% | 2.76% |
| 31221 - Tobacco Stemming and Redrying | 2.68% | 3.78% | 3.98% | 2.58% | 2.48% |
| 33361 - Engine, Turbine and Power Transmission Equipment Manufacturing | 1.10% | 0.58% | 1.60% | 1.67% | 2.46% |
| 33641 - Aerospace Product and Parts Manufacturing | 1.64% | 7.92% | 7.46% | 11.78% | 2.42% |
| **21223 - Copper, Nickel, Lead and Zinc Ore Mining** | **0.71%** | **--** | **0.95%** | **1.30%** | **2.41%** |
| 33422 - Radio and Television Broadcasting and Wireless Communications Equipment Manufacturing | 2.45% | 1.58% | 1.45% | 1.89% | 2.14% |
| 33331 - Commercial and Service Industry Machinery Manufacturing | 0.42% | 0.90% | 1.92% | 2.49% | 2.13% |
| 33661 - Ship and Boat Building | 0.41% | 0.42% | 0.27% | 0.46% | 1.88% |
| 31171 - Seafood Product Preparation and Packaging | 0.48% | 0.70% | 0.50% | 0.42% | 1.69% |
| 31111 - Animal Food Manufacturing | 0.92% | 0.79% | 1.14% | 0.96% | 1.61% |
| 33429 - Other Communications Equipment Manufacturing | 1.10% | 1.68% | 2.80% | 1.60% | 1.60% |
| 33451 - Navigational, Measuring, Medical and Control Instruments Manufacturing | 1.59% | 2.42% | 2.94% | 2.98% | 1.58% |
| 33411 - Computer and Peripheral Equipment Manufacturing | 3.45% | 3.52% | 3.91% | 3.05% | 1.41% |
| 33251 - Hardware Manufacturing | 0.91% | 1.11% | 1.84% | 1.48% | 1.39% |
| 33621 - Motor Vehicle Body and Trailer Manufacturing | 0.19% | 0.04% | 0.24% | 0.66% | 1.29% |
| 11114 - Wheat Farming | 2.31% | 1.36% | 2.54% | 0.60% | 1.21% |
| 33992 - Sporting and Athletic Goods Manufacturing | 0.75% | 0.82% | 0.84% | 0.72% | 1.06% |
| 11113 - Dry Pea and Bean Farming | 0.25% | 0.29% | 0.72% | 0.68% | 1.02% |
| 33611 - Automobile and Light-Duty Motor Vehicle Manufacturing | 2.44% | 1.71% | 1.44% | 0.96% | 0.96% |
| **SUB-TOTAL** | 43.03% | 48.42% | 58.61% | 64.37% | 69.05% |
| **OTHERS** | 56.97% | 51.58% | 41.39% | 35.63% | 30.95% |
| **TOTAL (ALL INDUSTRIES)** | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

*Source: Strategis Canada database*

The two natural resource sectors of interest to this discussion, forestry products and mining/non-ferrous metals are a large component of Canadian exports to the EU. For the purposes of this study, forestry product exports to the EU include wood and wood products, other manufactured wood products (such as prefabricated housing), veneer, plywood and engineered wood product manufactures. Similarly, mining and non-ferrous metals exports include aluminum, copper, nickel, lead, zinc, gold, silver, coal, other metal ores and other non-metallic minerals (including diamonds, asbestos, gypsum and salt).

Since the Canadian and the EU economies are similar in levels of development, we produce and trade in largely similar products. There is considerable overlap of industries between what is exported the most and what is imported the most. The high-tech, high-value added sectors, especially transportation equipment, machinery, electrical and electronic products, chemicals, and miscellaneous manufactures (such as medical instruments and equipment, measuring, controlling, and navigation devices, etc.) figure prominently in Canada-EU trade.[11]

Canada has run trade deficits with the EU in most industries. The exceptions are several natural resource-based sectors: agricultural products, fishing products, logging and forestry, tobacco products, wood products, and paper and allied products. For most of these sectors, the surpluses are small. Only the paper and allied products sector consistently maintained a trade surplus in excess of $1 billion dollars over the 1990s. The primary metals sector saw its trade surplus gradually diminish over the previous decade before finally switching over to a trade deficit in 1999. Finally, the mining, quarrying and oil wells sector recorded a mixture of trade surpluses and deficits with the EU over the past decade. And while the resources sector, as defined by the various wood, metal, mineral, petroleum and related industries, remain important in total Canadian exports, their share of total exports of goods to the EU has diminished steadily, from nearly 46 per cent to almost 29 per cent, over the 1990s; consistent with the trend towards increased trade in high-tech, high-value-added sectors.[12]

[11] Cameron, Bill, DFAIT, Canada - European Union Trade and Investment Relations The Impact of Tariff Elimination, February, 2001
[12] Ibid.

## Trade barriers

Canada's trade relationship with the EU is a steady one, with relatively favourable access to the European market. Yet, in fact, Canada is one of only eight WTO members without preferential access to the EU market.. The EU's tariff and non-tariff barriers are a concern for Canadian firms and reduces their ability to compete in this growing market.

The following Table 3 illustrates the industry-specific average tariff rates used by the EU in its varying trade relationships with other countries, including those under the auspices of the preferential regimes offered to the developing world (LDC's), former colonies (via Lome Convention and GSP), the WTO (MFN), and various combinations thereof.

Table 3

**EU Simple average tariffs under MFN and preferential regimes, by HS Chapter, 1999**
(Per cent)

| HS code | Description | MFN bound rate | MFN applied rate | Lomé + LDC + MFN | Lomé + GSP + MFN | LDC + MFN | FTA + MFN | GSP + MFN |
|---|---|---|---|---|---|---|---|---|
| 44 | Wood and articles of wood, wood charcoal | 2.7 | 2.4 | 0 | 0 | 0 | 0 | 1 |
| 71 | Natural/cultured pearls, precious stones/metals, coins | 0.7 | 0.7 | 0 | 0 | 0 | 0 | 0.1 |
| 74 | Copper and articles thereof | 3.3 | 3.3 | 0 | 0 | 0 | 0 | 2.3 |
| 75 | Nickel and articles thereof | 0.5 | 0.6 | 0 | 0 | 0 | 0 | 0 |
| 76 | Aluminium and articles thereof | 6.3 | 6.3 | 0 | 0 | 0 | 0 | 4.5 |
| 78 | Lead and articles thereof | 2.7 | 2.7 | 0 | 0 | 0 | 0 | 1.4 |
| 79 | Zinc and articles thereof | 3.1 | 3.1 | 0 | 0 | 0 | 0 | 2 |
| 80 | Tin and articles thereof | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 81 | Other base metals, cements, articles thereof | 3.2 | 3.2 | 0 | 0 | 0 | 0 | 2 |
| 94 | Furniture, bedding, mattress, mattress support, cushions | 2.2 | 2.2 | 0 | 0 | 0 | 0 | 1.1 |

Explanations:

MFN - Most Favored Nation

LDC - Less Developed Countries

Lome - Lome Convention Agreements offering preferences to poor former colonies in Africa & Caribbean (known as ACP countries)

FTA - Free Trade Agreements

GSP - General System of Preferences

*Source: WTO, Trade Policy Review Body, 'Trade Policy Review: The European Union', June 2000, WT/TPR/S/7214*

The EU grants duty-free or reduced tariff treatment for imports of a number of products under preferential agreements and arrangements, for which almost all its trading partners are eligible. Exclusively MFN treatment applies to imports from only eight WTO Members: Australia; Canada; Hong Kong, China; Japan; Republic of Korea; New Zealand; Singapore; and the United States. Other trading partners are eligible for a combination of preferential regimes, requiring a comparison of the margin of preference available for a product across different preferential regimes, as well as associated administrative costs, with the fall-back of MFN treatment.[13] Canada currently has only MFN status under the EU's WTO obligations, hence Canadian merchandise trade is governed by the MFN bound rate and the MFN applied rate – on this table, ranging between values of 0% duty to 6.3%, depending on the product. Table 3 clearly illustrates the preferential tariff benefits enjoyed by the EU's other trading partners. The higher tariff levels faced by Canada serve to make Canadian goods more costly to EU purchasers and/or remove the viability for Canadian goods to enter the EU market at all. Essentially, higher tariffs make Canadian products less competitive in the EU.

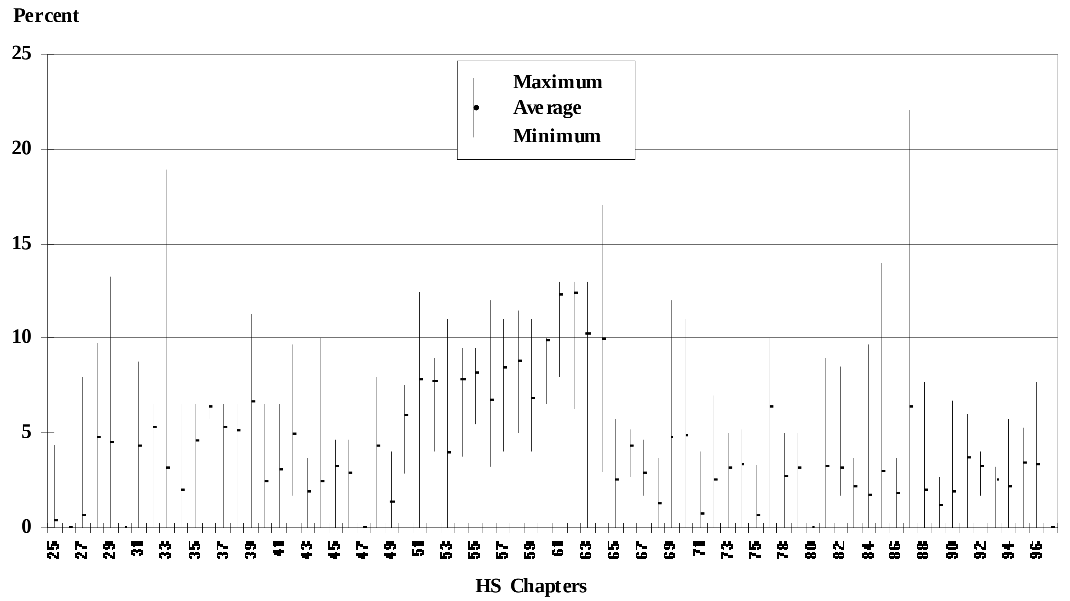
Impediments to trade fall into two broad categories: tariff barriers and non-tariff barriers. Despite the information presented in the above table, reduction of barriers on the tariffs side has seen much progress. For example, over the past four years, the non-weighted average applied EU tariff on total imports has fallen by almost 40 per cent to just over 5.0 per cent.[14]

However, it should be noted that average applied tariff levels may conceal the fact that some tariff levels remain unchanged, or remain high. In fact, some tariffs may remain prohibitively high and prevent trade entirely, while others may be high enough to keep trade at artificially low levels for market conditions.[15]

Table 4 illustrates this point, with some industries clearly facing a wide variance in tariff levels, with high tariff spikes.

[13] WTO, Trade Policy Review Body, 'Trade Policy Review: The European Union', June 2000
[14] Cameron, Bill, DFAIT, Canada - European Union Trade and Investment Relations The Impact of Tariff Elimination, February, 2001
[15] Ibid

**Table 4 – EU Tariffs, Non-Agricultural Goods, 1999a**




HS Description

25 Salt; sulphur; earths and stone, etc.
26 Ores, slag and ash
27 Mineral fuels, mineral oils, etc.
28 Inorganic chemicals; organic or inorganic compounds of precious metals, etc.
29 Organic chemcials
30 Pharmaceutical products
31 Fertilizers
32 Tanning or dyeing extracts etc.
33 Essential oils and resinoids; perfumery, cosmetic or toilet preparations
34 Soap, organic surface-active agents washing prep., etc.
35 Albuminoidal substances; modified starches; glues, etc.
36 Explosives; pyrotechnic products; matches, etc
37 Photographic or cinematographic goods
38 Miscellaneous chemical products
39 Plastics and articles thereof
40 Rubber and articles thereof
41 Raw hides and skins and leather
42 Articles of leather, etc.
43 Furskins and artifical fur; manufactures thereof
44 Wood and articles of wood, etc.
45 Cork and articles of cork
46 Manuf. of straw, of esparto, etc.

HS Description

47 Pulp of wood or of other fibrous cellulosic material
48 Paper and paper board, etc.
49 Printed books, newspapers, etc.
50 Silk
51 Wool; fine or coarse animal hair, etc.
52 Cotton
53 Other vegetable textile fibres
54 Man-made filaments
55 Man-made staple fibres
56 Wadding, felt and non-wovens; special yarns; twine, cordage, etc.
57 Carpets; other textile floor coverings
58 Special woven fabrics; lace, etc.
59 Impregnated, coated, covered or laminated textile fabrics, etc.
60 Knitted or crocheted fabrics
61 Articles of apparel and clothing accessories, knitted or crocheted
62 Articles of apparel and clothing accessories, not knitted, etc.
63 Other made-up textile articles; sets, worn clothing, etc.
64 Footwear, gaiters, etc.
65 Headgear and parts thereof
66 Umbrellas, walking-sticks, etc.
67 Prepared feathers and down, etc.
68 Articles of stone, plaster, etc.
69 Ceramic products
70 Glass and glass ware

HS Description

71 Natural or cultured pearls, precious or semi-precious stones, precious metals, etc.
72 Iron and steel
73 Articles of iron and steel
74 Articles of iron and steel
75 Nickel and articles thereof
76 Aluminium etc.
78 Lead and articles thereof
79 Zinc and articles thereof
80 Tin and articles thereof
81 Other base metals, etc.
82 Tools, implements, cutlers poons and forks, etc.
83 Misc. articles of base metals
84 Nuclear reactors, boilers, machinery,
85 etc.
86 Electrical machinery and
87 equipment, etc.
Railway or tramway locomotives,
88 etc.
89 Vehicles other than railway or
90 tramway rolling-stock; etc.
91 Aircraft, spacecraft, etc.
92 Ships, boats, etc.
93 Optical, photographic, etc.
94 apparatus
95 Clocks and watches, etc.
96 Musical instruments, etc.
97 Arms and ammunition, etc.
Furniture, bedding, etc.
Toy, games, etc.
Miscellaneous manuf. articles

a Non-agricultural products in HS chapters 25 through 97 (77 is not an HS chapter) excluding petroleum.

*Source: WTO, Trade Policy Review Body, 'Trade Policy Review: The European Union', June 2000,*

Sample HS Chapters with tariff levels of relevance to natural resources are underlined. Tariff levels for most natural resource products are valued at 10% and under. However, Table 4 also illustrates the degree of variance between the minimum, average and maximum in tariffs. The degree of variance will depend upon the nature of trading agreements made with the EU. Preferential tariffs would clearly be the minimum range, while those countries such as Canada not enjoying any preferential access would be facing the higher range of tariffs. The manner in which tariffs are calculated can dramatically affect a Canadian export's competitiveness.

Table 5 provides an overview of sample EU MFN tariffs for natural resource products. As Canada does not have preferential access, its tariffs would be MFN rates and Table 5 provides some indication as to what tariff rates would be applicable in sample industries. Of note, of total 1998 exports from Canada, 52 per cent entered the EU duty free while another 34 per cent were subject to positive tariffs up to 5 per cent. Only roughly 14 per cent of Canadian exports to the EU faced tariffs in excess of 5 per cent.[16]

Table 5

**EU Applied MFN tariffs by HS Chapter, 1999**
(Per cent and US$ billion)

| HS code | Number 8-digit HS-lines | Description | MFN 1999 | | | | Imports |
|---|---|---|---|---|---|---|---|
| | | | **Simple average (%)** | **Min. (%)** | **Max. (%)** | **Standard deviation (%)** | **(US$ billion)** |
| 44 | 185 | Wood and articles of wood, wood charcoal | 2.4 | 0 | 10 | 2.9 | 13.4 |
| 71 | 67 | Natural/cultured pearls, precious stones/metals, coins | 0.7 | 0 | 4 | 1.3 | 31.6 |
| 74 | 72 | Copper and articles thereof | 3.3 | 0 | 5.2 | 2 | 6.3 |
| 75 | 18 | Nickel and articles thereof | 0.6 | 0 | 3.3 | 1.2 | 1.8 |
| 76 | 64 | Aluminium and articles thereof | 6.3 | 0 | 10 | 2 | 9.7 |
| 78 | 13 | Lead and articles thereof | 2.7 | 0 | 5 | 2.2 | 0.3 |
| 79 | 12 | Zinc and articles thereof | 3.1 | 0 | 5 | 1.6 | 0.6 |
| 80 | 9 | Tin and articles thereof | 0 | 0 | 0 | 0 | 0.4 |
| 81 | 70 | Other base metals, cements, articles thereof | 3.2 | 0 | 9 | 2.8 | 1.4 |
| 94 | 87 | Furniture, bedding, mattress, mattress support, cushions | 2.2 | 0 | 5.7 | 1.9 | 10.7 |

*Source: WTO, Trade Policy Review Body, 'Trade Policy Review: The European Union', June 2000, WT/TPR/S/7214*

Food and agricultural-related products are one of the key commodity groupings that frequently face high tariffs. In contrast, slightly over one-half of all industrial products enter Europe duty free. And another one-third enter Europe at tariff rates of less than 5 per cent. A handful of other sectors face duties above 5 per cent in significant proportions, including: vehicles and transportation equipment, pulp and paper, chemicals, textiles, and certain base metals. These sectors, along with agriculture, are likely to be most sensitive to any changes in European tariffs.[17]

[16] Cameron, Bill, DFAIT, Canada - European Union Trade and Investment Relations The Impact of Tariff Elimination, February, 2001
[17] Ibid.

Other than tariffs, the EU also utilizes non-tariff barriers (NTB's) as an impediment to trade. While most trade flows barrier free, Canadian firms have encountered real NTB's in Europe, such as customs procedures, labelling requirements, registration requirements, sanitary and phytosanitary requirements (SPS), technical barriers to trade including regulatory requirements, and the structure of distribution systems. These impediments can both restrict actual entry by Canadian firms and deter companies from even considering the European market.

NTBs have traditionally been more prevalent in the EU and US than other developed nations. Table 6 provides a measure of the pervasiveness of NTB, by type over the post-Uruguay Round period. Although still more prevalent than tariffs, frequency and import coverage ratios show a gradual decline in the occurrence of NTBs except for in recently accessed countries. The EU's textile and processed food sector are the most protected by NTBs, although processed foods also showed the greatest decline in NTB occurrence.[18]

| **Pervasiveness of Various NTB Types, European Union** | | | | | | |
|---|---|---|---|---|---|---|
| | **Frequency ratio (F)**** | | | **Import coverage ratio (IC)***** | | |
| ***European Union*** | 1988 | 1993 | 1996 | 1988 | 1993 | 1996 |
| **All NTB's** | 26.6 | 23.7 | 19.1 | 13.2 | 11.1 | 6.7 |
| Core NTB's | 25.2 | 21.8 | 15.1 | 10.9 | 9 | 4.2 |
| **Quantitative Restrictions** | 19.5 | 17.2 | 13.1 | 7.8 | 7.1 | 3.8 |
| Export Restraints | 15.5 | 13.9 | 11.4 | 6.2 | 5.6 | 3 |
| Non-automatic licensing | 4.4 | 3.5 | 1.5 | 2.2 | 1.7 | 0.8 |
| Other QRs | 0.2 | 0.2 | 0.2 | 0.1 | 0 | 0 |
| **Price Control Measures** | 12.4 | 8.4 | 3.2 | 6 | 3.5 | 0.5 |
| Variable charge | 6.3 | 5.4 | 1.4 | 1.8 | 1.5 | 0.1 |
| AD/CVs and VEPRs^ | 2.6 | 1.9 | 0.9 | 2.2 | 1.3 | 0.2 |
| Other PCMs | 4.3 | 1.1 | 1 | 2.1 | 0.6 | 0.3 |

*Indicators for 1996 are calculated after revising the 1993 Non Tariff Measures database by eliminating quantitative restrictions on "tariffied" products and updating the price control measures.
**The frequency ratio (F) indicates the proportion (or percentage) of national tariff lines that are affected by a particular NTB or by a specified group of NTBs, irrespective of whether the products affected are actually imported.
***The import coverage ratio (IC) indicates the share (or percentage) of a country's own imports that is subject to a particular NTB or any one of a specified group of NTBs.
^Anti-dumping (AD) / Countervailing Measures (CVs) and Voluntary Export Price Restraints (VEPRs).

*Source: The European Union's Trade Polices and their Economic Effects, May 1998*

**Table 6**

The EU is also makes frequent use of anti-dumping and other price control measures, second only to the United States. The EU changed anti-dumping legislation in 1994, while revising other provisions such as those on circumvention. The new regulation provides for fairer price comparisons, stricter injury requirements and for a broader role of the "Community interest test" but, even after these

[18] The European Union's Trade Polices and their Economic Effects, May 1998

changes, proving the existence of unfair trade practices has remained highly contentious. The European Union, is a frequent user of the World Trade Organisation (WTO) dispute settlement mechanism[19].

**Ongoing Trade Irritants and Disputes**

According to Canada's Market Access Priorities for 2001, ongoing issues and disputes with the EU include[20]:

- Common Agricultural Policy and Subsidies on Agricultural Products - the reduction of market-distorting domestic support and the elimination of all export subsidies.
- Wine and Spirits - Oenological practices, the protection of names, the EU's concerns regarding provincial liquor boards
- Fish - Reduction of high EU tariffs for Canadian fish and shrimp; improved access to the EU for Canadian fisheries exports
- Aluminum - Reduced tariffs on aluminum ingot and other non-ferrous metals
- Genetically Modified Canola – Resolution of the market access barrier in approvals for Canada's genetically modified (GM) canolas
- Chrysotile Asbestos - maintain market access for chrysotile asbestos products to the European Union despite bans by several member countries.
- Bans and Restrictions on Certain Non-Ferrous Metals - monitor the status of restrictions and eventual ban on the use of certain substances, including lead, mercury and cadmium, of which Canada is an exporter; convey concerns to the EU.
- Eco-Labelling – improve transparency and 3rd party non-discrimination of the "Flower Program" eco-labelling scheme.
- Forest Certification - continue to monitor access to key markets with a view to ensuring that certification remains a voluntary marketplace activity and that criteria consistent with Canadian forest values are used to evaluate Canadian products.
- Certification of Organic Food Products – improve upon the case-by-case approval system for Canadian organic product exports; improve ease of certification process for Canadian exporters[21]

Priorities for Canada include[22]:

- seek the elimination of export subsidies and the reduction of production-distorting domestic support through the WTO agriculture negotiations;
- continue discussions toward agreements that will improve market access for Canadian wine and spirits;
- complete the implementation of the 1998 Canada-EU MRA by finalizing the confidence building phase;

[19] The European Union's Trade Polices and their Economic Effects, May 1998
[20] This discussion focuses upon trade in goods only. Although issues in services, investment and intellectual property exist, they are beyond the scope of this discussion.
[21] All examples are extracted from Opening Doors to the World: Canada's International Market Access Priorities 2001, Department of Foreign Affairs and International Trade
[22] Ibid.

- encourage professional associations in Canada and the European Union to work toward agreements concerning the mutual recognition of qualifications; and
- continue cooperation with the European Union in the field of e-commerce pursuant to the agreed work plan.
- A number of barriers to trade exist in the European Union that are of concern to Canada, particularly in the agriculture and natural resource sectors. In the wake of past food-safety scandals in the European Union, Commission and Member State positions on consumer health and safety issues have grown more cautious, and factors other than scientific considerations appear to be growing in influence.
- New multilateral trade negotiations will offer the best opportunity to improve Canada's market access on a wide range of industrial and agricultural goods. Bilateral liberalization efforts under ECTI will also make a contribution.

Those trade irritants of relevance to forestry products and mining/non-ferrous metals will be discussed in detail in following chapters.

## Chapter 3. Forestry Products

Canada is the world's largest exporter of forest products – with about 420 million hectares of forest land, including the world's second largest commercial softwood forest after Russia's - Canadian forest industry shipments totalled $57 billion, which exceeded those of the motor vehicle or telecommunications equipment sectors in 1995. The forest products industry is Canada's leading manufacturing sector and largest net exporter. It is a cornerstone of the economy and a major component of the industrial structure and employment base of all regions of the country. The industry purchases over $6 billion worth of inputs annually from other industries and is the largest user of transportation services. In 1994, the industry directly employed 225 000 workers, and its activities supported up to 900 000 jobs in Canada. It is Canada's largest non-urban employer and hundreds of communities are dependent on the forest sector for their livelihood[23].

### Canadian Forestry Products Exports to the EU

Canada exports a variety of forestry-based products to the EU, a full discussion of which is beyond the parameters of this study. However, Table 7 provides a general overview of Canadian exports to the EU and the specific destination markets.

**Table 7. Market opportunities for Canadian products by destination country.**

| Product | Canadian exports to Europe in 2000 | Market development potential (None, low, stable, good, strong) | Priority Countries |
|---|---|---|---|
| Softwood lumber | $337 million | • Most important product in terms of export value;<br>• Decreasing (low) potential for structural applications;<br>• Increasing potential (good) for value-added products (decking, DIY, components) | 1. U.K.<br>2. Germany and Benelux<br>3. France, Spain, Italy |
| Hardwood lumber | $199 million | • Very important product in terms of export value;<br>• Stable to good short- and long-term potential. | 1. Italy and Germany<br>2. U.K., Spain, Benelux, and France<br>3. Portugal and Scandinavia. |
| Wood-based panels | $37 million | • Low potential (mainly for softwood plywood) | 1. U.K.<br>2. Germany |
| Hardwood flooring | $33 million | • Niche market<br>• Strong potential | 1. U.K. and Germany<br>2. France, Italy and Benelux<br>3. Spain |
| Prefabricated homes | $22 million | • Niche market<br>• Strong potential | 1. Germany and U.K.<br>2. France, Benelux, Switzerland<br>3. Spain |
| Engineered wood products | N/A | • Niche market<br>• Good potential | 1. U.K.<br>2. Germany, Benelux, France |

*Source: Opportunities for Canadian Wood Products in Western Europe, Forintek Canada Corp, 2001*

[23] Strategis, Industry Canada, Sector Competitiveness Framework Series: Forest Products

**EU Industry Overview**

The EU's forested area, 130 million hectares, represents 36 percent of the total European area. Of this, 87 million hectares are exploitable forests (managed for wood production and services). The proportion of private forests is 65 per cent, with 12 million forest owners.[24]

The forest-based and related industries in the EU is comprised of six main sectors: forestry management, mechanical woodworking, pulp, paper and board manufacturing, paper and board converting, printing and furniture. The combined production value of these sectors in 1999 was 326 billion EUR, with a value added of 111 billion EUR, representing 8% of production in the EU's manufacturing industries and directly employing 2.5 million people[25]. The EU's apparent consumption of forest products is valued at 394 billion EUR, with 30 billion being sourced from imports, 65 billion being traded intra-EU and another 31 billion EUR being exported [26]

As with every player in the forest products industry, the EU's industry is faced with new challenges from a globally competitive market. There is considerable competition from the "old" producers in North America with competitive advantages in technological efficiency and raw resource endowments. In the "new" regions of Asia and Latin America, competition is intensifying as producers have access to raw materials and modern technology, complemented with low production costs. The European Commission (EC) summary of the relative competitiveness of EU forest-based and related industries states: "The community industry is increasingly challenged by the new low-cost competitors from Asia, Latin America and sometimes the central and eastern European countries (CEEC). Competition is further increased through growing mobility and transfer of technology, knowledge and know-how in the form of skills toward low impact cost areas, thus accentuating the pressure on the union's forest-based industries…"[27].

The following Table 8 is a summary matrix of the EU forestry product industry's competitiveness, as well as pinpointing several of the industry's structural inefficiencies.

[24] Environmental Policy & Law, 1999, Vol. 29 Issue 1, p48, 2p
[25] European Commission, available at http://europa.eu.int/comm/enterprise/forest_based/index.htm
[26] European Commission, available at http://europa.eu.int/comm/enterprise/forest_based/industry/tradecons.htm
[27] Remrod, Jan 'Sweden eyes up Europe's pot of gold ', Pulp & Paper International, V 43, #2, Feb 2001

**Table 8**

| The EU Forest Products Industry, Competitive Matrix | |
|---|---|
| **STRENGTHS** | **OPPORTUNITIES** |
| ***Tangibles: Input cost factors:***<br>Sustainable and expanding raw material base<br>***Tangibles: Technological factors:***<br>Efficiency of production facilities<br>Advanced technology<br>Use of ICT technology and multilingual knowledge<br>***Intangibles: Quality & performance:***<br>High quality products and service<br>Strong environmental performance<br>Potential for FBI clustering<br>Targeted advertising in magazines and newspapers and directories<br>Knowledge of local languages and culture<br>Experience in data management<br>Know-how & skills<br>Proximity & access to one of world's largest and sophisticated markets<br>Good health and safety standards | ***Tangibles: Input cost factors:***<br>Capitalise on expanding forest resource<br>Participate in supply chains from cost-competitive regions<br>***Tangibles: Technological factors:***<br>Development of Trans European Networks<br>Electronic publishing<br>***Intangibles: Quality & performance***<br>Expand use of wood<br>Promote wood as lifestyle product<br>Total product solutions<br>Specialisation<br>Electronic commerce<br>Archived information providers<br>Complementarity with new media<br>Capitalise on environmental investments<br>R & D and know-how advancement<br>Restructuring (esp. networks)<br>***Intangibles: Legislative and institutional framework:***<br>Success of Euro<br>Enlargement (larger market and control of low cost competition)<br>More equitable taxation |
| **WEAKNESSES** | **THREATS** |
| ***Tangibles: Input cost factors:***<br>High raw material costs, esp. wood<br>High labour costs<br>High energy costs<br>High costs of printing<br>***Intangibles: Quality & performance:***<br>Lack of forest/wood cultural consciousness<br>Fragmented structure<br>Inadequate training<br>Often conservatism and lack of innovation<br>Skills and knowledge in IT and economy<br>Lack of end user/market orientation<br>***Intangibles: Legislative and institutional framework:***<br>High taxes<br>Low profitability (à low re-investment)<br>Complicated (& costly) bureaucracy<br>Lack of capital for modernisation<br>No reliable statistics on SMEs | ***Tangibles: Input cost factors:***<br>Increasing wood costs + lower supply<br>Increasing importance of recovered fibre (wood & paper), but risks of distortion of mix through imperfect policies<br>Lower costs and environmental standards in competing third countries<br>***Intangibles: Quality & performance:***<br>Declining readership, household penetration and poor literacy<br>Advertising revenue moving to commercial broadcasting and new media<br>Lack of trainers<br>***Intangibles: Legislative and institutional framework:***<br>Unbalanced environmental taxes<br>Potential shortcomings of adequate protection of content<br>Decreasing budgets of schools and libraries |

*Source: http://europa.eu.int/comm/enterprise/forest_based/swot.htm*

## The EU's Forestry Strategy – Policy & Framework

In December 1998, the EU began the process of implementing a Community Forestry Strategy[28]. Prior to this, the EU did not have a Community-wide forestry policy. The objectives of this strategy are to take into account the "sustainable forest management and the multifunctional role of forests, protection of forests, development and maintenance of rural areas, forest heritage, biological diversity, climate change, use of wood as a renewable source of energy etc., while avoiding market-distorting measures"

[28] Council Resolution of 15 December, 1998 on a forestry strategy for the European Union (1999/C 56/01)

The EU strategy is under development and acknowledges that forests and forest products should be integrated and coordinated with all sectoral common policies, like the Common Agricultural Policy, the Environment, Energy, Trade, Industry, Research, Internal Market and Development Cooperation policies, in order to take into account the respective impacts that forests and forest products experience and cause to other sectors and policies. The continued development of the European Forestry Information and Communication via improving the quality and reliability of data on forests is an important factor as is cooperation with Central and Eastern Europe in management, conservation and sustainable development of forests as part of pre-accession measures for agriculture and rural development.[29]

Of key relevance to this discussion, the EU considers that 'forestry and forest-based commercial activities fall within the open sector of the economy and that their commercial functions should be guided primarily by market forces'[30] and the Community has established a number of instruments to ensure that competition functions effectively. Until this strategy, forests and related industries have been run directly by the Member States or as part of the Common Agricultural Policy (CAP) or Structural Funds. The forestry sector does qualify for some types of funding under the Structural Funds – Regional Development component of the EU budget including:

- Rural development support measures, for protecting forests, developing and enhancing the socio-economic potential of forests, preserving and improving the ecological value and restoring damaged forest, promoting new outlets for the use of wood, extending forest areas, and education and training programmes.

- Pre-accession measures for agriculture and rural development in the application countries of Central and Eastern Europe: Community aid for the sustainable adaptation of the farm sector and rural areas in the implementation of the EU's legislative achievements as regards the CAP and related policies, and help for the management, conservation and sustainable development of forests in Central and Eastern Europe[31].

The Commission also stresses the need to take account of a number of issues that have a direct bearing on forests, such as the certification of forests that are sustainably managed (assessment criteria and principles to apply in this area), conservation and improvement of biodiversity, creation of protected areas, wood as a source of energy, and forests in the context of climate change (carbon cycle). [32]

On an individual member level, forest policy framework and national forest programmes have been evolving in virtually all EU member nations to meet the goals of the EU-wide strategy, particularly in changes to broad policy objectives, national debates on forest policy goals etc. as well as on national forest programmes (NFP). Despite similarities in the content of policies, wide disparity in the means and methods of formulating forest policy exist. National policies include the following:

[29] Eur-Lex, Council Resolution of 15 December 1998 on a forestry strategy for the European Union Official Journal C 056 , 26/02/1999, http://europa.eu.int/eur-lex/en/lif/dat/1999/en_399Y0226_01.html
[30] Ibid.
[31] Ibid
[32] Environmental Policy & Law, 1999, Vol. 29 Issue 1, p48, 2p

- the vital necessity of sustainable forest management and the need to balance the economic, ecological and social functions of forests.
- the importance of a holistic, cross-sectoral approach and linked forest policy and programmes to rural development and environmental conservation.
- the vitality and relevance of the global and regional forestry dialogue - EU members and candidate countries frequently referred to major EU documents and stated that they are bringing national forest policy into line with broad EU objectives, as stated in the EU forest strategy and the various directives and regulations.[33] Additionally, national forest policies are being altered to take account of the results of the international forest dialogue at the global and regional levels, and of the commitments made there[34]

As it stands, the Pan-EU efforts include thirty-seven European countries participating in the development and implementation of criteria and indicators for sustainable forest management. Progress in varying degrees includes the adaptation of a commonly agreed upon set of criteria and indicators to national conditions and needs. Especially profound and rapid changes are necessary in those countries in transition, notably to manage the restitution process and to help and guide the many thousands of new, small-scale forest owners. The driving issue behinds these efforts is the overall economic viability of European forest management [35] hence the focus on sustainable forest management practices.

Finally, certification schemes are being implemented on the ground in a pragmatic way, with coexisting international (FSC and PEFC) and national systems. To avoid disruption and confusion from differing standards or techniques of forest management being called for by different certification systems, some countries have developed consensus-based national forestry standards to which all certification systems can refer.[36] Table 9 provides a summary regarding the status of national forest policies of member nations, including accession hopefuls and existing members with substantial resource endowments in forestry.

[33] United Nations, Forest Policies and Institutions in Europe: 1998-2000, Geneva Timber and Forest Study Papers, ECE/TIM/SP/19, 2001
[34] Ibid.
[35] United Nations, Forest Policies and Institutions in Europe: 1998-2000, Geneva Timber and Forest Study Papers, ECE/TIM/SP/19, 2001
[36] Ibid.

## Table 9

| Reported national forest programmes in Europe as of 2000 | | | | |
|---|---|---|---|---|
| **Nation** | **Start** | **Finish** | **Title** | **Remarks** |
| Albania | 1995 | | National forestry programme | Waiting full funding. Co-operation with FAO, World Bank. |
| Austria | 2000 | | National Forest Programme | Report, with "policy guidelines" and explicit comparison of Austria with IPF/IFF Proposals for Action |
| Cyprus | 1998 | 2000 | National Programme for Development of the Forest Sector in Cyprus | Includes cost-benefit analysis, reform of organisation and structure of the sector. Assistance from FAO. |
| Czech Republic | | 2000 | Concept of Forestry Policy/ National Forestry Programme | Linked to EU accession process. |
| Estonia | 2000 | | Forestry Development Plan for 2001-2010 | Stakeholders involved, working groups set up |
| Finland | 1998 | 1999 | Finland's National Forest Programme 2010 | Designed to meet new international forest policy norms. A process involving widespread participation. |
| Germany | 1999 | 2000 | National Forest Programme | Based on IPF Proposals as a broad inter-sectoral approach. Scientific analysis, widespread consultation. |
| Greece | | | Six-year development programme | Basis for EU funding |
| Latvia | 2000 | | National Forestry Programme | Supported by FAO TCP |
| Lithuania | 1994/96 | | Forestry and Wood Processing industry Development programme | Action Plan (to 2023). Links to rural development. |
| Norway | | 1999 | White Paper on forest policy | Continuous process, with linkages to other sectors |
| Poland | | | Preparing to launch nfp | Forest policy approved 1997.<br>In conformity with EU documents |
| Portugal | | 1999 | Plan for the Sustainable Development of the Portuguese Forest | Result of a participatory process, linked to other sectors. Sets up Regional Forest Plans and Forest Management Plans |
| Spain | 1997 | 2000 | Spanish Forestry Strategy | Will be the basis of revised forest law and forest plan |
| Sweden | | | Forest Policy last evaluated 1997 | Emphasis on extension ("Greener forests") |
| Switzerland | | | Under preparation | Delayed by storm ("Lothar") |
| Turkey | 1997 | 2000 | Forestry Master Plan 1990-2009,<br>to be revised/widened | Forest sector review and Eighth Five-year Development Plan in place. Assistance from FAO, World Bank |
| United Kingdom | | 1994 | UK Sustainable Forestry Programme, now under revision | Forestry strategies for England (done), Wales, Scotland |

*Source: Forest Policies and Institutions in Europe, 1998 - 2000, United Nations, 2001*

## Barriers to Trade in Forestry Products

Barriers to trade can take many forms, as tariffs which are transparent and have been declining due to GATT and WTO negotiations, and as non-tariff barriers (NTB's) which are more pervasive, less transparent and harder to measure. Specifically in forestry, a myriad of trade barriers exist as shown in Table 10.

**Table 10. Trade measures which may act as barriers to trade in forestry products**

| | |
|---|---|
| Specific limitations on trade | Quantitative restrictions; export restraints; health and sanitary regulations; licensing; embargoes; minimum price regulations, etc |
| Charges on imports | Tariffs; variable levies; prior deposits; special duties on imports; internal taxes, etc |
| Standards | Industrial standards; packaging; labelling and marking regulations, etc |
| Government interventions in trade | Government procurement; stock trading; export subsidies; countervailing duties; trade diverting aid, etc |
| Customs and administrative entry procedures | Customs valuation; customs classification; anti-dumping duties; consular and customs formalities and requirements, and sample requirements |
| *Source: I.J. Bourke and Jeanette Leitch, 'Trade Restrictions and Their Impact on International Trade in Forest Products', FAO, United Nations, Revised Edition, Rome, September 2000* | |

## Tariffs in Forestry Products Trade

For the most part, developed country markets for forestry products exhibit relatively low tariff levels due to success in the GATT negotiations, although duties vary by market and product. Panel products - particularly plywood - builders' woodwork items, and furniture tend to have higher rates, as do some types of paper products in some markets. As shown in Table 11, the EU follows these trends, although the rates are still relatively low compared to other industries.

Despite the low actual rate, tariffs can still act as a means of protection for domestic producers. In a highly competitive basic commodity market, where price competition is greatest, and in periods of weak demand when competition is high, even a relatively low duty can add a substantial extra cost. As import duties are usually charged on the c.i.f., not the f.o.b., price[37] even a low tariff can provide domestic producers with valuable protection. This is particularly true for distant suppliers, for instance, Canadian exporters to the EU, as the tariff will increase in conjunction with transportation costs. It should also be noted that a low nominal rate may in fact mask a much higher effective rate - with a considerably higher protective effect for domestic producers[38].

Tariff escalation, where rates increase as the degree of processing increases, is also a common practice and acts as a disincentive to exporting higher processed products. Exporters may be forced to export less processed forms where they are more competitive because of the lower charges these face[39]. The

[37] Ibid.
[38] I.J. Bourke and Jeanette Leitch, 'Trade Restrictions and Their Impact on International Trade in Forest Products', FAO, United Nations, Revised Edition, Rome, September 2000
[39] Ibid.

EU appears to apply escalating tariffs to some degree on value-added wood products, most notably, on veneer and plywood. Higher valued added items such as furniture and mouldings do not seem to be charged similar escalated tariffs. Conclusions on the effects of tariff escalation are difficult but the existence and the possible negative impacts of escalation should be noted.

**Table 11**

**EU Selected Tariff Rates, Forestry Products**

**(% ad valorem)**

| H.S. Code | Description | EU MFN | GSP |
|---|---|---|---|
| Chap 44 | SOLID WOOD | | |
| 44.01 | Chips and particles | 0 | |
| 44.03 | Wood in rough (ie logs) | 0 | |
| | whether or not roughly squared | | |
| 44.07 | Wood sawn lengthwise | 0(C) | 0 |
| | sliced or peeled or planed | 0-2.5(T) | |
| 44.08 | Veneer | 3, 4(C) | 0 |
| | | 3-4.9(NC) | 0 |
| 44.09 | Wood-tongued, grooved, | 0 | |
| | beadings, mouldings etc | | |
| 44.1 | Particleboard and similar | 7 | 5 |
| 44.11 | Fibreboard | 7 | 5 |
| 44.12 | Plywood and laminated wood | 06-Oct | 4.2-7 |
| 44.15 | Packing cases, drums, | 3 | 0 |
| | pallets etc | | |
| 44.18 | Builders' joinery and carpentry | 0-3 | 0-2.1 |
| Chap 47 | PULP AND WASTE PAPER | | |
| 47.01 | Wood pulp (mechanical) | 0 | |
| 47.02-05 | Wood pulp (chemical) | 0 | |
| 47.07 | Waste paper | 0 | |
| Chap 48 | PAPER | | |
| 48.01 | Newsprint | 3 | 0 |
| 48.04 | Uncoated kraft | 4 | 0 |
| | in rolls or sheets | | |
| 48.08 | Corr. paper and board etc. | 6, 10 | 0 |
| | in rolls or sheets | | |
| 48.1 | Coated paper (printing) | 7 | 0 |
| | in rolls or sheets | | |
| Chap 94 | FURNITURE | | |
| 94.03 | Furniture of wood | 0-2.7 | 0 |

Note: Rates should only be taken as a guide as they are changing continuosly.
When MFN rate is higher than the applied rate the latter has been shown.
Countries not eligible for MFN treatment may face substantially higher rates

Notes: C = coniferous; NC = non-coniferous; T = tropical;

*Source:* *I.J. Bourke and Jeanette Leitch, 'Trade Restrictions and Their Impact on International Trade in Forest Products', FAO, United Nations, Revised Edition, Rome, September 2000*

**Non-Tariff Barriers and Impediments to Trade.**

Non-tariff barriers are less obvious than tariffs as trade barriers, taking on many forms as indicated in Table 9 above. In fact, many have national relevance and validity as controls, but can affect foreign exporters as additional obstacles to overcome. While few of the standards and codes discriminate specifically against imports and are therefore not strictly trade barriers, they do create much greater problems for exporters than domestic producers. The latter have easier access to testing procedures, greater information, less documentation to complete, and easier access to the organizations controlling the system. Additionally, domestic standards differing from those of potential competitors can form an effective protective mechanism for a domestic industry producing for home consumption.[40] In the forestry and related products sectors, specific types of NTB's have proven to be effective and pervasive.

**Sanitary and Phytosanitary (SPS) regulations and Technical Regulations/Standards (TRS)**

Regulations and standards relating to environmental issues are important considerations for forestry. Standards and codes are not necessarily specifically designed to discriminate against imports but many do create much greater problems for foreign producers than domestic producers. In the EU, examples of this type of restriction that affect Canadian forestry product exports include:

- restrictions on wood panels which use formaldehyde glues, a glue with human health risks - examples of which is the reduction or elimination of Volatile Organic Compound (VOC) emissions at the core of new environmental regulations coming into effect over the next few years in Europe. Starting this year, Switzerland, for example, will levy a fee of $1.50 per litre of VOC used[41].
- restrictions on certain timber preservation processes and materials;
- recovery and recycling of packaging regulations
- Harmonization of building codes across the EU - products to be used in certain end-uses must meet their requirements. Also, overseas suppliers may have to meet a variety of different requirements in different markets; and simply keeping informed of regulations and requirements may be a major hurdle – harmonization across the EU may actually be a benefit for exporters.
- Pinewood nematode – Since July 1993, the European Union has required that Canadian exports of softwood lumber, except Western Red Cedar, be heat-treated in order to ensure the destruction of the pinewood nematode (PWN). This requirement has effectively eliminated Canadian exports of untreated softwood lumber to the European Union. Canada has indicated on numerous occasions that it views this mandatory requirement as excessive, given the negligible risk of establishment of pinewood nematode in the European Union as a result of trade in Canadian softwood lumber.[42]
- The EU has also adopted measures requiring the treatment and marking of all new and used coniferous (e.g. pine, spruce, fir) non-manufactured wood packing material (NMWP) originating in the United States, Canada, China, or Japan beginning October 1, 2001, to prevent

[40] I.J. Bourke and Jeanette Leitch, 'Trade Restrictions and Their Impact on International Trade in Forest Products', FAO, United Nations, Revised Edition, Rome, September 2000
[41] "Euro demand surges for wood resins and chems', Chemical Market Reporter , New York , Nov 27, 2000
[42] DFAIT, 'Opening Doors to the World, Canada's Market Access Priorities, 2001'

> the introduction of the pinewood nematode. European concern over the possible introduction and establishment of the pinewood nematode has heightened after an outbreak in Portugal and interceptions of the pinewood nematode in NMWP from the United States, Canada, China, and Japan. Control measures require that all new and used NMWP originating from the four countries be heat or chemically treated to ensure destruction of the nematode. Non-compliance can mean refusal of entry, or destruction. This will likely necessitate the off-loading of any cargo from the NMWP, and may cause considerable delay.[43]

The most common trade complaint against standards and regulations is that their rules and their administration are excessively restrictive, and go well beyond the level needed to ensure adequate protection. Most are of considerable, and growing, significance in European countries. Whether they are in fact being used as trade barriers can be very difficult to determine. Most are obstacles to overcome, rather than deliberate attempts to block trade. It does, however, seem likely that in some cases the regulations and/or the way in which they are administered, are excessive. Some have resulted in major trade disputes between countries. In Canada's case, alternative measures to control pinewood nematode while allowing trade in untreated lumber have been made over the years. However, the European Union has not accepted Canadian proposals for less trade-restrictive measures. At Canada's request, WTO consultations were held on July 15, 1998, but the issue remains unresolved. Government officials will work with industry and provincial representatives to assess next steps.[44]

Overall TRS are less of a concern for value-added products than for logs, sawnwood and other solid wood products. The safety concerns of TRS are usually connected with strength characteristics of the products - such as whether the material is suitable for building or structural purposes. Since value-added products are largely destined for non-structural uses, they are not affected to the same extent by these controls. They do have to meet many quality and safety standards but often these are not government imposed, but industry quality standards or labelling requirements that must be met if the product is to be successfully marketed. However, a number of countries in the EU have government supported industry labelling and quality standards[45].

Similarly, the SPS controls imposed for logs and sawnwood often do not affect most value-added products, or are at least more readily overcome, since the timber used in producing them has usually been dried before use, a factor that reduces or eliminates phytosanitary risks. Additionally, success in exporting many of these products is more dependent on fashion, the level of promotion, appearance and service, than on a small price advantage.[46]

**Quantitative restrictions and Other NTB's**

Quantitative restrictions have a very direct and often severe impact on forestry products trade. Direct quantitative restrictions take many forms, such as an overall quota, a quota allocated to imports from a

[43] USDA, Foreign Agricultural Service, http://www.fas.usda.gov/ffpd/Newsroom/euswpm.pdf
[44] DFAIT, 'Opening Doors to the World, Canada's Market Access Priorities, 2001'
[45] I.J. Bourke and Jeanette Leitch, 'Trade Restrictions and Their Impact on International Trade in Forest Products', FAO, United Nations, Revised Edition, Rome, September 2000
[46] I.J. Bourke , 'Trade Restrictions and Their Future', FAO, via http://www.fao.org/forestry/include/frames/english.asp?section=http://www.fao.org/DOCREP/ARTICLE/001/X6649E01.HTM

specific country or a quota limiting eligibility for a particular tariff. Above-quota imports face full duties. In general the use of quotas on forest products has declined, but for some products in some markets they still exist, and create difficulties. The European Union imposes import quotas on board and panel products. While imports of non-coniferous plywood from countries that are eligible for GSP treatment pay duty at a lower rate than MFN recipients (70 percent of the full duty rate) on all their volume, coniferous plywood is still controlled through a duty-free global annual quota of 650,000 cum. This is not allocated to specific countries, except for an allocation of 50,000 cum for Canada. The European Union also has tariff quotas or tariff ceilings on newsprint, fibre-building boards, builders' woodwork and some furniture items.[47]

Other measures imposed by importers can have restrictive effects depending on the way in which they are implemented. Import licensing procedures, customs procedures, valuation procedures and how a product is defined and assessed (ie. what tariff code does it belong?) can often provide domestic producers with protection from imported products.

As with recycling of waste paper, regulations on recovery and recycling of packaging waste (wood and paper) introduced in many Western European countries have effects on the direction and extent of international trade in forest products. These types of regulations have the potential to affect competitiveness, particularly of more distant foreign suppliers. Imports may be disadvantaged in a number of ways - meeting a variety of different requirements in different markets for the same product; and simply keeping informed of regulations and requirements may be a major hurdle. Moreover, the often long distances between overseas suppliers and their markets can make the cost of returning packaging material such as pallets prohibitive. The result is distortion of trade. Thus to a degree they may be considered NTBs in a formal sense.[48]

**Other Trade Impediments**

Tariffs and NTB's as discussed above are formal restrictions to trade, however, other measures which may be considered to be impediments to trade are also utilized. They are actions which are either legal under GATT/WTO rules, or largely outside the boundaries of existing international agreements as presently defined. They usually have no direct links to official government regulations, though in a number of instances they may be unofficially encouraged by governments. Nevertheless, they have many similarities to formal restrictions, often have a similar effect, and in many cases their intention is the same - to restrict trade[49].

The trade impediments of most significance are related to environmental issues. Some of the policies related to environmental issues concern pollution and waste control in the transport, processing and consumption of forest-based products. Pollution from processing plants, the use of polluting materials in production, energy requirements for production, excessive or uncontrolled consumption, and waste disposal are examples. The most recent, and likely with the largest impact however, are measures aimed at limiting trade to forest products made from wood coming from a sustainably managed forest

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[47] I.J. Bourke and Jeanette Leitch, 'Trade Restrictions and Their Impact on International Trade in Forest Products', FAO, United Nations, Revised Edition, Rome, September 2000
[48] Ibid.
[49] I.J. Bourke , 'Trade Restrictions and Their Future', FAO, via http://www.fao.org/forestry/include/frames/english.asp?section=http://www.fao.org/DOCREP/ARTICLE/001/X6649E01.HTM

resource. Examples are certification and ecolabelling and restrictions or bans and boycotts by local municipalities and the retail trade as a function of certification and ecolabelling.

The certification of forest-based products (CFP) as coming from sustainably managed forest resources is a timely and controversial issue facing the industry. Whether certification acts or may act as a trade barrier is the question of relevance to this discussion. Although many supporters argue that certification is not a trade restrictive practice, it has many of the characteristics of one. In fact this is to a degree the very goal that it is trying to achieve - to encourage consumers to discriminate in favour of certain products (and therefore against others). Even though most forestry certification schemes seem likely to be voluntary they may in reality be compulsory since some important retailers may be unwilling to carry uncertified products (as is occurring in the United Kingdom).

The main certification and ecolabelling interests in Europe are in Germany, the Netherlands and the United Kingdom, where environmental groups are active and where some retail interests see a potential market advantage from providing certified products. The effect on trade so far has been limited, but a considerable degree of market uncertainty is being generated in many markets. Both the range of products and the volume of trade covered by operational certification schemes is insignificant in global or regional terms, being less than 0.5 percent of the wood entering international trade and a negligible proportion of total wood used for industrial purposes[50].

However, the CFP market continues to grow exponentially in select markets. Market share of CFPs is claimed by proponents of certification schemes to be over 25% in the United Kingdom, around 4% in the Netherlands and less than 1% in Germany. Yet awareness by final consumers of CFPs continues to be low and there are few signs that private consumers actively ask for CFPs or are actually paying[51] or are willing to pay premiums. The status of actual demand for certified wood products is unclear, and far too little surveyed. A recent study conducted in the United Kingdom suggests that demand is driven more by 'DoItYourself' stores than by individual consumers, who still give priority to quality and price over environmental sustainability. Other consumer surveys reveal that there is little willingness to pay any premium for certified wood products. This has caused concern among forest industries that the benefits of getting certificates may not offset the additional costs.[52] Despite this demonstrated lack of consumer willingness to pay, several large retail chains are actively promoting CFPs, yet will not pay a "Green" premium to wood processors. If final end customers want certified wood, but are unwilling to pay a premium for it, and retailers are equally unwilling to pay a 'green' premium, producers will likely be the ones to pay for the costs of certification.[53]

Public procurement plays an important role as a driver of demand in several countries. In the business-to-business markets most of the CFP marketing has been based on its potential competitive advantage, market access, image building and environmental pressure. On the supply side the area of certified forests has also grown exponentially, reaching about 80 million hectares by mid-2001, due to several

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[50] Bourke, IJ, Trade Restrictions and Their Future, FAO, United Nations, Rome via http://www.fao.org/forestry/include/frames/english.asp?section=http://www.fao.org/DOCREP/ARTICLE/001/X6649E01.HTM

[51] Forest Products Annual Market Review 2000-2001, UNECE, Timber Committee, Timber Bulletin , Vol. LIV, ECE/TIM/BULL/54/3

[52] 'Certification: Helping Markets Support the World's Forests', International Trade Forum, August 04, 2001 http://www.tradeforum.org/news/fullstory.php/aid/280.html

[53] Blackman, Ted, 'Who'll pay for certification? ', Wood Technology, V 126, #7, p 5, Aug 1999

new certification systems now operational, notably Pan European Forest Certification (PEFC) in Europe and Sustainable Forestry Initiative (SFI) in North America, in addition to the existing Forest Stewardship Council (FSC). In Europe around 28.5% of the forest area is already certified, compared with about 6.7% in the United States. Today, a wide range of CFPs are available mostly with a FSC label, but also increasingly with a PEFC label. Forest certification remains highly controversial, with conflicting stakeholder interests, divergent views on certification as well as differences of opinion on the issue of mutual recognition between major schemes.[54]

Non-CFP run the risk of facing bans and boycotts by consumers, regional authorities, retailers or local councils. The restrictions are either absolute or linked to restricting the use of timber to "approved" supplies but are usually directed towards tropical timber, yet it is not unforeseeable that such practices could spread to other types of timber, depending on how the certification situation is managed.

As formal tariff barriers are set to come down, NTB's and impediments to trade will continue to exist and seem likely to grow in significance. It seems clear that under certain circumstances they will hamper or restrict trade. Those aimed at restricting trade to the products that come from a sustainably managed forest resource may have the greatest impact. NTB's will continue to require close attention. Restrictions or bans by local municipalities, the retail trade, and in some cases by national governments, seem likely to have a growing effect on trade unless the conditions surrounding them are changed. Their impact will vary considerably with the market, the product, and also the producing country concerned. The exact effect and direction in which these will move is difficult to predict with any real certainty. It will be heavily dependent on which markets institute them, the degree of support that is given by consumers, legislators and traders, and the extent to which harmonization or at least mutual recognition of different practices is achieved. While many have valuable objectives, they may also have undesirable trade effects. [55]

**Subsidies/Financial Support**

In general, subsidies may be granted at several levels in the EU: Community-wide programmes, and aids granted by the national, regional or local governments of the Member States ("State aid"). Through the EU's strict budgetary discipline on the part of Member States, the European Commission intends to "maintain its pressure on State aid in the Community"[56].

The two largest components of Community Programmes expenditure are agriculture (Chapter IV(2)) and Structural Operations, representing 45% and 35%, respectively, of expenditure for 2002[57].

The Strucutral Funds are comprised of the European Regional Development Fund (ERDF), European Social Fund (ESF), the Guidance Section of the European Agricultural Guidance and Guarantee Fund

[54] Forest Products Annual Market Review 2000-2001, UNECE, Timber Committee, Timber Bulletin , Vol. LIV, ECE/TIM/BULL/54/3

[55] Bourke, IJ, Trade Restrictions and Their Future, FAO, United Nations, Rome via http://www.fao.org/forestry/include/frames/english.asp?section=http://www.fao.org/DOCREP/ARTICLE/001/X6649E01.HTM

[56] WTO, Trade Policy Review Body, 'Trade Policy Review: The European Union', June 2000

[57] European Commission, 2002, General Budget of the European Union, for the Financial Year 2002, via http://www.europa.eu.int/comm/budget/pdf/budget/syntchif2002/en.pdf

(EAGGF) and the Financial Instrument for Fisheries Guidance – with these, the Community has three priority objectives for 2000-2006:

- Objective 1, which accounts for almost 70% of resources in the structural funds, promotes the development of regions whose development is lagging behind, generally applying to regions in which per capita GDP is less than 75% of the EU average;
- Objective 2 contributes to restructuring areas affected by the decline in industrial and service sectors, declining rural areas, urban areas in difficulty, and depressed areas dependent on fisheries; and
- Objective 3 is concerned with human resource development, to adapt and modernize policies and systems of education, training, and employment[58].

Given these criteria, the structural funds mainly concern Germany, Greece, Italy, Spain, and Portugal. According to the EU's notification to the WTO on subsidies, "the aid involved is largely devoted to the least-developed areas of the Community, and the great majority of it goes to finance infrastructure or to assist individuals directly, without necessarily conferring a direct benefit to producers of goods"; the potential trade effects of such aid are then generally described as minimal. Finally, the Cohesion Fund, which was established in 1993, finances transport and environment infrastructure in the Member States whose per capita GDP is less than 90% of the EU average, namely Greece, Ireland, Portugal, and Spain[59].

As discussed in the previous overview of the EU Forest Products Industry, it was noted that the EU's new forestry policy includes:

> Rural development support measures, for protecting forests, developing and enhancing the socio-economic potential of forests, preserving and improving the ecological value and restoring damaged forest, promoting new outlets for the use of wood, extending forest areas, and education and training programmes.

This qualifies the sector for potential funding initiatives under the EC's Structural Funds budget allocations. The Structural Funds are intended for operations, structural and cohesion funds including financial mechanisms, other agricultural and regional operations, transport and fisheries and is valued at 34, 002.5 million Euro or roughly 34.5% of the EU's overall budget in 2002 (the second largest expenditure commitment after agriculture). Specifically under regional operations and policies, the EU's targets of development of the least favoured regions (known as Objective 1) and conversion of regions facing difficulties (Objective 2) could be sources of support for the forestry products sector.

The goal of Objective 1 is to support development in the less prosperous regions. The EU works to "promote harmonious development" and aims particularly to "narrow the gap between the development levels of the various regions[60]. Meant to create sustained endogenous growth, Objective 1's financial commitment is broken down as follows:

[58] WTO, Trade Policy Review Body, 'Trade Policy Review: The European Union', June 2000
[59] Ibid.
[60] European Commission, http://europa.eu.int/comm/regional_policy/objective1/index_en.htm

- infrastructures (28% of the funds), of which approximately half is for transport infrastructures;
- human resources (30% of the funds), with priority given to employment policies and education and training systems;
- aid for the production sectors (42% of the funds)
- of which, 10% of total funds supports environmental protection[61].

Of note, parts of Finland and Sweden (in accordance with the Act of Accession of Sweden) are eligible for Objective 1 funds. These are the EU's major forestry products producers.

The Objective 2 financial support system is designed to revitalise all areas facing structural difficulties, whether industrial, rural, urban or dependent on fisheries. Though situated in regions whose development level is close to the Community average, such areas are faced with different types of socio-economic difficulties that are often the source of high unemployment. These include the evolution of industrial or service sectors; a decline in traditional activities in rural areas; a crisis situation in urban areas; and difficulties affecting fisheries activity. Obejctive 2 financing areas do not coincide with the EU's forestry producers, and is not as likely a source of support for the industry at this time. Table 12 provides the EU's budget allocations towards Structural Funds in 2002.

It must be noted that the EU is following a trend of less sector specific funding, instead choosing to fund 'horizontal' objectives in the manufacturing sector, classified according to the primary objectives for which it is given or the sector to which it is directed, as follows:

- Horizontal objectives: Research and development, Environment, Small and medium-sized enterprises, Trade, Energysaving, Rescue and restructuring, and Other objectives

- Particular sectors: Shipbuilding, Steel, Other manufacturing sectors

- Regional objectives: Regions falling under Article 87(3)a, Regions falling under Article 87(3)c[62]

[61] Ibid.
[62] European Commission, Ninth Survey on State Aid in the European Union, Brussels, 2001

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**Table 12**

| Structural Funds of the European Union, 2002 Budget (Euros and %) | | |
|---|---|---|
| **Heading Subsection B2 - Structural Operations^** | **Budget 2002 (Euros)** | **% of 2002 Total Budget 98,634,700,000** |
| Objective 1 | 21,329,627,745 | 21.62% |
| Objective 2 | 3,729,793,231 | 3.78% |
| Objective 3 | 3,646,007,301 | 3.70% |
| Other structural operations (outside of Obj.1 regions) | 168,900,000 | 0.17% |
| Community Inititaives | 1,860,322,000 | 1.89% |
| Innovation schemes and tech.assist* | 144,349,723 | 0.15% |
| Other specific structural operation | 170,000,000 | 0.17% |
| **Structural Funds - Subtotal** | 31,049,000,000 | 31.48% |
| Cohesion Fund | 2,789,000,000 | 2.83% |
| **Total** | **33,838,000,000** | **34.31%** |

^includes operations, structural and cohesion funds including financial mechanisms, other agricultural and regional operations, transport and fisheries

* includes other regional operations

*Source: European Commission via http://www.europa.eu.int/comm/budget/pdf/budget/syntchif2002/en.pdf*

It must be noted that these funds are potentially available to, but are not specficially designated for, the forestry products industry. Should the industry or firm meet the criteria for funding, then these resources could be made accessed. For the most part, it appears that the forestry sector receives relatively few specifically designated financial resources from the EU.

Domestic policies specifically targeted at the forestry sector include subsidies, financial assistance, tax concessions, export encouragement schemes, etc., all of which can substantially improve the competitiveness of domestic producers in both their own domestic market and export markets and are implemented with this objective. Assistance can take many forms, but often involves reducing production costs through low stumpage fees, planting subsidies and tax concessions, assisted transport, the provision of infrastructure such as roads, and occur in many European countries.[63]

Additionally, the EU has the "Quality of Life and Management of Living Resources" Programme, which is particularly applicable to the forestry sector. The programme's aim is to develop knowledge for the production and exploitation of living resources, including forests, covering the whole production chain, taking into account the highly competitive international context and in the light of the need for adaptation to the evolution of the common agricultural and fisheries policies, while also providing the scientific basis for Community regulations and standards, and to promote the multifunctional role of forests and the sustainable management and utilisation of forest resources as an integral factor of rural development.[64] The fund is valued at 520 million Euro for the period 1998 – 2002 and ends at the end of 2002. The EU will make a contribution of 50% of the eligible costs for full

[63] I.J. Bourke and Jeanette Leitch, 'Trade Restrictions and Their Impact on International Trade in Forest Products', FAO, United Nations, Revised Edition, Rome, September 2000

[64] Secretariat General of the European Commission via http://www.europa.eu.int/comm/secretariat_general/sgc/aides/forms/fish02_en.htm

cost contracts and 100% for marginal cost contracts towards private and public companies and research organisations that apply for the funding.

On a specific country level, various types subsidies of subsidies utilized to assist the forestry sector can be found. Examples from Canada's forestry products competitors (Finland, and Sweden) include:

- The Finnish government is generally not subsidizing forestry enterprises or investments. However, when Finland joined the EU in 1995, it adopted Council Regulation (EEC) No. 867/790 on improving the processing and marketing conditions for forestry products. Finland was eligible for subsidizing its most northern enterprises, and several forest owners applied for the available assistance[65].

- The Swedish government decided in the early 90's that no subsidies would be made available to the commercial side of the Swedish forest industry. This reflected government's view that subsidies would be destructive to an industry whose ongoing operations and future development relied heavily on a strongly competitive international market. The only government assistance during the last five-year period has been to forest owners of selected valuable broad-leaved deciduous forest in the form of subsidies to silviculture amounting to about SEK 18 million per year (USD 2.25 million). These sums are applied to an area covering about 1 percent of Sweden's productive forests. The term selected valuable broad-leaved deciduous trees refer to the indigenous tree species elm, ash, hornbeam, beech, oak, wild cherry, linden/lime and maple[66].

- The forestry Act of 1994 stipulates that after felling operations other than cleaning or thinning, new selected valuable broad-leaved forest shall be established on the site. Such government assistance has been granted to compensate farmers for the loss of harvest income as these trees generally taken 200 years to mature versus pine and spruce, which mature in about 100 years. When Sweden joined the EU in 1995, it had to adopt Council Regulation (EEC) No. 867/90 on improving the processing and marketing conditions for forestry products. Very small amounts of these EU subsidies have been used by Swedish forest owners due to a requirement that the GOS contribute 50 percent of the subsidy.[67]

**Investment**

Investment relations between Canada and the EU are generally open and relatively friction-free. The treatment of foreign investment is largely the responsibility of the individual Member States, and prospective investors should research specific member countries for details concerning economic, political and social systems of the country or countries in which they are interested. The Union traditionally had no role in determining the conditions under which third country investors could establish investments; as such, its main role was to ensure that firms (including those owned or controlled by non-EU nationals) already established in one Member State were not discriminated against by others. The 1992 Treaty on European Union gave the EU new responsibilities over capital movements and the treatment of new third-country investors, however. There is thus a possibility that

[65] USDA, Foreign Agricultural Service, 'Finland Forest Products - Annual forest Products Report, 1998'
[66] USDA, Foreign Agricultural Service, 'Sweden Forest Products - Annual Forest Products Report, 1999'
[67] USDA, Foreign Agricultural Service, 'Sweden Forest Products - Annual Forest Products Report, 1999'

discriminatory measures may arise in specific areas as the EU proceeds to "harmonize" Member State approaches to third country investors, but the climate for Canadian investment is expected to remain excellent for the foreseeable future.[68]

In 1999, Canada's direct investment in the EU amounted to $48.9 billion, accounting for 19.0 per cent of Canada's total outward foreign direct investment (FDI) stock. At the aggregate level, Canadian investors have increased their direct investment in the EU by nearly 247 per cent over 1988-1999. This rate of increase is slightly greater than that for total Canadian direct investment abroad (223 per cent) and, contrary to popular perception, is considerably greater that the growth rate of Canadian direct investment going to the United States (163 per cent) over the same period. In 1999, the stock of FDI in Canada from the European Union was $45.2 billion, accounting for 18.8 per cent of Canada's total inward FDI stock. While Canadian investors seem keen on investment opportunities in the EU, it appears to be less true of European investors with respect to Canada. Total EU direct investment in Canada climbed some 77 per cent over 1988-1999 to reach the $45.2 billion mark. This rate lags far behind the rate for total foreign direct investment (FDI) in Canada (110 per cent) and is even further behind the rate for US FDI in Canada (128 per cent)[69].

Essentially, Canadian firms have reversed the long-standing situation of Canada being a net importer of capital vis-à-vis the European Union. Canada became a net exporter of capital to the European Union countries in 1996[70].

Specifically regarding the forestry industry, trade and investment are global activities. Companies in the Canadian forest products industry range from very small businesses to large multinational firms. Commodities tend to be produced in world-scale operations, which are often located close to the forest resource. Higher value-added products tend to be manufactured in small to medium-sized establishments that are usually located near or in urban centres. Sector firms are medium-sized in a global context. Unlike many manufacturing sectors in Canada, the forest industry is primarily Canadian owned[71].

The forest products sector is Canada's most capital-intensive industry and accounted for 29 percent of total manufacturing capital expenditures in 1995. Major investments were made through the 1980s and 1990s in clean, highly efficient capacity to increase productivity and meet environmental standards. Like many industries focussed on commodities for export markets, the industry is subject to cyclical demand, prices and financial performance. The level of capital intensity requires high operating rates and acts as an incentive to continue mill operation when prices fall, as long as variable costs are covered[72].

Consequently, average return on investment has been modest. Timber supply constraints have also restrained capacity expansions, and the pattern of new investment in the industry is now changing. In

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[68] US Commercial Service, US Dept of Commerce, 'EU Country Commercial Guide, FY 2002' via http://www.usatrade.gov/website/ccg.nsf/ShowCCG?OpenForm&Country=EU
[69] Cameron, Bill, DFAIT, Canada - European Union Trade and Investment Relations The Impact of Tariff Elimination, February, 2001
[70] Ibid.
[71] Industry Canada, Straetgis, Sector Competitiveness Frameworks Series - Forest Products: Overview and Prospects via http://strategis.ic.gc.ca/SSG/fb01002e.html
[72] Ibid.

recent years, less investment has been directed toward new plants in commodity product lines in favour of modernization and higher value-added products at existing mills[73]. In terms of foreign direct investment in the forest products industry, it appears that investments would be made through the multinational firm level and there are relatively few barriers to investment in this area. Of note, as most forest resources are provincially owned, as are the inputs for the production process (power & utilities), provincial governments have considerable control over the major wood and energy input costs of the sector. It is critical that these policies be managed to create an environment conducive to investment.[74]

**Competitive Intelligence - Competitors, expansion, threats to Canada**

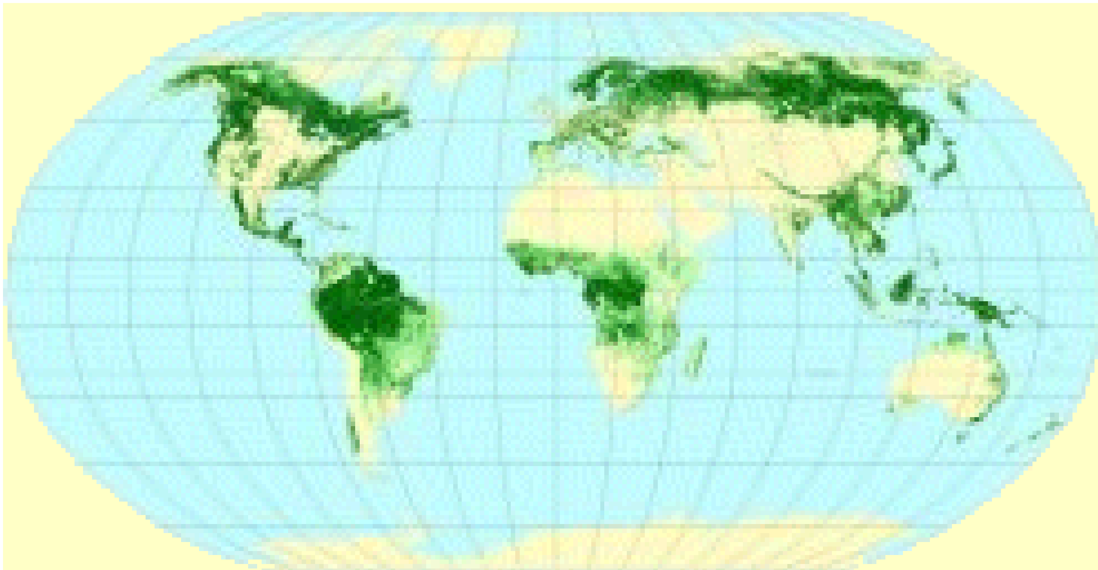
The world's forest resources are depicted on Figure 1 and clearly, Canada, the US, Europe and the Central and Eastern European States (CEES) of the former Soviet Union have the largest non-tropical forest resources, comprised of boreal and temperate forests. Hence, Canada's competitors in this industry are obviously the US, CEES and European producers.

Europe contains about 1 billion hectares of forests, corresponding to 27 percent of the world total. The Russian Federation alone accounts for 851 million hectares and Sweden and Finland for another 49 million hectares. The remaining 38 countries have together less than 15 percent of the forests in the region. Europe's forests amount to 1.4 ha per capita, which is considerably above the world average; however, the area per capita in Central and Southern Europe is much lower. Almost all forests are located in the boreal ecological domain and Europe has almost 80 percent of all boreal coniferous forest[75].

[73] Ibid.
[74] Industry Canada, Straetgis, Sector Competitiveness Frameworks Series - Forest Products: Overview and Prospects via http://strategis.ic.gc.ca/SSG/fb01002e.html
[75] FAO, Forest Resources Assessment, 2000, via http://www.fao.org/forestry/fo/fra/main/index.jsp

**Figure 1**

**The World's Forest Resources, Geographic Distribution, 2000**



*Source: FAO, Forest Resources Assessment, 2000*

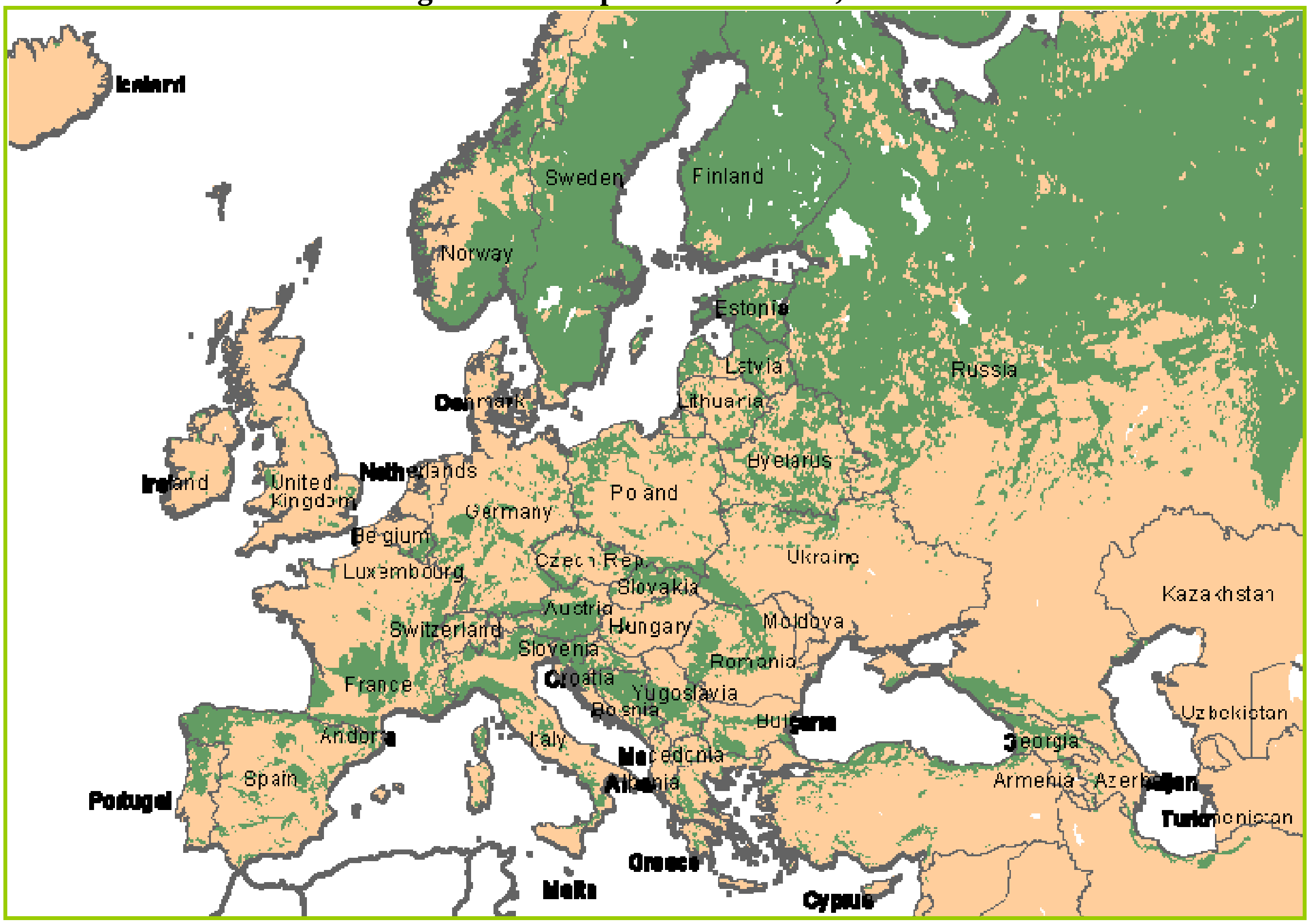
North America's forest cover is distributed between the temperate and boreal ecological zones. Some 86 percent of the region's forests is in two large countries – Canada and the United States – covering roughly 472 million hectares[76].

The subregion of Northern Europe includes the Nordic countries of Finland, Iceland, Norway and Sweden as well as the Baltic countries of Estonia, Latvia and Lithuania. Half of the total land area of 129 million hectares is classified as forest (65 million hectares). Historically, forestry has played a major role in the economies of Sweden, Finland and Norway. For example, in 1999 the value of exports from the forest sector in Sweden were US$9.7 billion, and exports from Finland totalled US$10.9 billion. Wood exports from the Baltic countries have increased dramatically since they gained independence in the early 1990s, much of which is destined for Finland and Sweden. At the same time, the Baltic countries have increased their industrial capacity over the last few years and are able to utilize increasing amounts of their own forest resources[77].

Figure 2 illustrates the forest cover of Europe by country.

[76] FAO, Forest Resources Assessment, 2000, via http://www.fao.org/forestry/fo/fra/main/index.jsp
[77] FAO, Forest Resources Assessment, 2000, via http://www.fao.org/forestry/fo/fra/main/index.jsp

**Figure 2 – Europe's Forest Cover, 2000**




*Source: FAO, Forest Resources Assessment, 2000*

Canada's competition for the European markets in forestry products is intense and diverse. In fact, issues such as the enlargement of the EU to include Sweden and Finland in 1992, and more recently, efforts to allow accession for Estonia, Latvia and Lithuania greatly affect Canada's competitive advantages in exporting to the EU market.

Sweden and Finland are forestry-based economies. With their proximity to and membership in the EU, their exports are mostly earmarked for their fellow members. Both economies have been focussing on improving their production and export performance in this industry.

For instance, based on a strong economy and an abundant softwood raw material supply, Finland's forestry sector increased overall production by four percent in 1998. Production of sawn timber increased six percent, while pulp, paper, and paperboard production increased four to five percent. The output of Finnish sawmills increased 600,000 cubic meters (cum) in 1998, producing a record 11.3 million cum.[78]

[78] FAS, USDA, Forest Product Feature Articles, 'Record High Production Level Reached in Finnish Forestry Sector'

These record production levels in the forestry sector are expected to increase successively in the five year period following 1999. GDP growth of 3.5 percent in 1999, and a strong economy characterized by construction and housing growth is expected to drive domestic demand higher, while exports show no sign of slowing.[79]

The value of Finnish forestry exports increased substantially in 1998, amounting to approximately $12 billion. Softwood lumber exports accounted for much of the growth, increasing 24 percent to 9.3 million cum. Exports to European countries, which account for the vast majority of Finnish exports, grew 12 percent. The United Kingdom and Germany accounted for almost 2.5 million cum of Finland's softwood lumber sales. And although demand in Japan has been soft, Finland has been able to hold on to most of its market in Japan even after the slow down in 1998. Finland exported 440,000 cum of softwood lumber to Japan in 1998, down from 550,000 cum in 1997.[80] These Finnish exports, including imports from Sweden, are competing with U.S. and Canadian exports to Japan. Swedish and Finnish exporters of wood and lumber to Japan claim that their sustainable forestry practices, in use since the beginning of this century, appeal to the Japanese traders, thus favoring Scandinavian products over North American products. Additionally, Japanese freighters have lowered their shipping prices to stimulate exports to Japan.[81]

The Finnish industry remains a large importer of pulpwood and wood chips, some softwood logs and birch logs, the bulk of which originates in Russia and the Baltic states. In 1997, a total of 9 million CUM raw material for the industry was imported, of which 7.5 million CUM came from Russia and the Baltics. Some of the Finnish operators that previously harvested in Russia have changed to become wood procuring rather than logging companies in the Baltic countries, Russia and Belarus. According to Thomesto Oy - one of the major operators in the forestry and transport area, one reason is that the basic stability of their economies, legislation and administration cannot guarantee operations in accordance with the rules of the western market economy, and there is doubt that their economic recovery is built on true and enduring foundations. Especially in Russia, business involves many risks and new ones arise constantly, hence the transfer of activity to limit risk exposure. Additionally, softwood products from North America, Japan and the PRC are not allowed into the Finnish or Swedish markets due to the presence of the pinewood nematode.[82]

Sweden is also a major softwood lumber producer supplying the European market with about 25 percent of its demand. The EU is the most important market for Sweden's forestry products, receiving more than 80 percent of Swedish total exports. Exports to Japan have been a successful market diversification strategy and Swedish exporters are actively looking at other Far East markets, especially the PRC and Vietnam. Intra-Baltic trade is strengthening, and a major share of Sweden's raw material imports is coming from the Baltic states. The forest industries in particularly Estonia and Latvia are developing trade connections in Europe in competition with Sweden and Finland.[83]

It appears that timber prices in the Nordic countries are integrated, i.e. Finnish prices do influence the price setting in Sweden. It would also appear that Austria is part of this price integration and the

[79] FAS, USDA, Forest Product Feature Articles, ‘Record High Production Level Reached in Finnish Forestry Sector’
[80] FAS, USDA, Forest Product Feature Articles, ‘Record High Production Level Reached in Finnish Forestry Sector’
[81] USDA, Foreign Agricultural Service, ‘Finland Forest Products - Annual forest Products Report, 1998’
[82] USDA, Foreign Agricultural Service, ‘Finland Forest Products - Annual forest Products Report, 1998’
[83] USDA, Foreign Agricultural Service, ‘Sweden Forest Products - Annual Forest Products Report, 1999’

implementation of the Euro will make this price integration more apparent. In addition to a changed and more efficient capital market, the consequence will be that many companies will experience perhaps tougher but also more open competition within Europe. The effects of the Euro could be of both a strategic and a practical nature. Swedish companies will be able to denominate their share capital in Euros with effect from year 2000.[84]

As mentioned earlier in this report, there are no or very insignificant government subsidies allowed for forestry and forestry products in the Swedish annual budget. The major companies invest in promotional efforts as they need to meet the competition from competing materials. Continued globalization can be anticipated within the forestry industries. The four major forest companies in Sweden all have large holdings in other countries. The joint promotional forum for Swedish, Finnish and Norwegian lumber producers, The Nordic Timber Council, is promoting “Timber 2000" with a rough budget of SEK 60 million. The project is mainly aimed at promotion in the United Kingdom.[85]

In 2001, Russia’s forestry exports continued to rise as a weakened ruble improved price competitiveness in world markets. In addition, strong competitiveness between companies in the domestic market led to further price declines. On average, Russia’s timber exports are 20 - 30 percent less expensive than competitive products from other countries. According to the State Statistical Committee, Russia's timber complex exported $3.3 billion in timber products in 2000, significantly incrased from 1998 levels. The majority of Russia’s timber exports are unprocessed logs exported to nearby countries. From Siberia and the Far East, thick logs of oak, ash, pine and spruce are shipped to Japan, China, and South Korea, some of the world’s largest timber importers. From Northwestern Russia, logs and semi-processed wood products are exported to Western Europe. In 2001, there was a visible rise in exports of sawn lumber, plywood, pulp, paper and cardboard.[86]

Although Russia has some 22 percent of the world’s total timber reserves, it accounts for only 2 percent of the world’s forest product output. Limited capital, an unfavorable investment climate, and a lack of restructuring hinder development of Russia’s forestry potential. In 2001, Russian production of softwood and hardwood logs are projected at 66 million cubic meters and 22.4 million cubic meters, respectively, slightly above 2000 levels. Roundwood continues to account for most exports. However, Russia’s forestry sector is expanding output of processed wood products in border areas, as several foreign companies are making investments. Annual output of softwood lumber and temperate hardwood lumber is expected to expand during 2001 and 2002. Limited expansion of processed wood products is expected in the near future.[87]

[84] Ibid.
[85] USDA, Foreign Agricultural Service, ‘Sweden Forest Products - Annual Forest Products Report, 1999’
[86] USDA, Foreign Agricultural Service, ‘Russian Federation Solid Wood Products Annual 2001’
[87] Ibid.

## Chapter 4. Mining and Non-Ferrous Metals

### Canadian Exports to the EU in Mining and Non-Ferrous Metals (including coal)

Canadian exports of mining products to the EU have grown significantly since 1990 from just over $1.5 billion to nearly $2.5 billion in 1999, comprising Canada's second largest export category to the EU. In contrast, exports of primary metals[88] have declined from nearly $2 billion in 1990 to just over $1 billion in 1999. Yet this category is still Canada's 5th largest export component to the EU.[89] Fabricated metals[90] and non-metallic minerals[91] are also important export categories to the EU – with roughly $375 million and $100 million in exports for 1999. Clearly the mining and metals industries are significant components of Canada's merchandise trade with the EU.[92]

It should also be noted that the resources sector, as defined by the various wood, metal, mineral, petroleum and related industries, remain important in total Canadian exports, their share of total exports of goods to the EU has diminished steadily, from nearly 46 per cent to almost 29 per cent, over the 1990s; consistent with the trend towards increased trade in high-tech, high-value-added sectors[93]. The export values achieved by these sectors still comprise a significant share of Canadian products destined for the European market.

Table 13 provides a breakdown of Canadian mining exports to the EU, with focus on the sectors most relevant to this report.

[88] These statistics include exports of steel and iron and products manufactured from them.
[89] Cameron, Bill 'Canada-European Union Trade and Investment Relations – The Impact of Tariff Elimination', 2001
[90] This category also includes products made of steel and iron.
[91] Includes concrete, glass and related, abrasives, lime, asbestos and gypsum.
[92] Ibid.
[93] Cameron, Bill 'Canada-European Union Trade and Investment Relations – The Impact of Tariff Elimination', 2001

**Table 13**

| CANADA'S MINING EXPORTS TO THE EU, $ | | | | | |
|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 |
| Value in Canadian Dollars | | | | | |
| **NAICS 21211 - Coal Mining** | | | | | |
| EUROPEAN UNION (Total) | 357,268,667 | 367,634,666 | 293,908,158 | 273,745,831 | 403,448,471 |
| **NAICS 21222 - Gold and Silver Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | 119,189,442 | 29,177,907 | 2,784,118 | 1,356,975 | 175,133,476 |
| **NAICS 212231 - Lead-Zinc Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | 557,418,357 | 396,425,323 | 381,232,226 | 332,813,025 | 317,898,821 |
| **NAICS 212232 - Nickel-Copper Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | -- | -- | -- | -- | -- |
| **NAICS 212233 - Copper-Zinc Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | 1,320,554 | -- | 500,215 | 1,813,440 | -- |
| **NAICS 21229 - Other Metal Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | 123,914,750 | 117,122,323 | 409,582,939 | 430,874,319 | 398,344,525 |
| **NAICS 212392 - Diamond Mining** | | | | | |
| EUROPEAN UNION (Total) | 651,107 | 43,847,645 | 545,421,347 | 653,532,842 | 695,192,278 |
| **NAICS 212393 - Salt Mining** | | | | | |
| EUROPEAN UNION (Total) | -- | -- | -- | -- | -- |
| **NAICS 212394 - Asbestos Mining** | | | | | |
| EUROPEAN UNION (Total) | 15,899,329 | 12,664,995 | 10,718,398 | 8,483,803 | 9,868,409 |
| **NAICS 212395 - Gypsum Mining** | | | | | |
| EUROPEAN UNION (Total) | 549,345 | 476,958 | -- | -- | -- |
| **NAICS 212396 - Potash Mining** | | | | | |
| EUROPEAN UNION (Total) | 47,466,037 | 50,873,600 | 53,602,638 | 47,511,645 | 39,360,152 |
| **NAICS 212398 - All Other Non-Metallic Mineral Mining and Quarrying** | | | | | |
| EUROPEAN UNION (Total) | 1,379,174 | 232,477 | 36,466 | 255,069 | 120,814 |
| **NAICS 33131 - Alumina and Aluminum Production and Processing** | | | | | |
| EUROPEAN UNION (Total) | 479,461,495 | 445,391,603 | 308,812,854 | 342,092,818 | 382,502,616 |
| **NAICS 33141 - Non-Ferrous Metal (except Aluminum) Smelting and Refining** | | | | | |
| EUROPEAN UNION (Total) | 942,437,143 | 873,984,105 | 635,437,869 | 877,254,038 | 868,450,356 |
| **SUB-TOTAL** | 2,646,955,400 | 2,337,831,602 | 2,642,037,228 | 2,969,733,805 | 3,290,319,918 |
| **MINING/NON-FERROUS EXPORTS TO OTHERS** | 18,341,579,625 | 17,375,178,541 | 16,543,936,536 | 18,395,308,767 | 17,701,043,141 |
| **TOTAL MINING/NON-FERROUS EXPORTS, (ALL COUNTRIES)** | 20,988,535,025 | 19,713,010,143 | 19,185,973,764 | 21,365,042,572 | 20,991,363,059 |

Source: Strategis Database, Industry Canada

Although exports to other nations overwhelms EU exports, it must be kept in focus the dominating effect of Canada's trade with the US on the statistics. Table 14 provides the percentage share of each of the mining sectors, and also breaks out the US share. From this it is clear that the EU accounts for roughly one quarter of Canada's non-US exports in the non-ferrous mining sector. Notice also that in this sector, Canada's export markets are more diversified, with the US having only a 56% share, as compared to its 87% share of all Canadian exports.

## Table 14

| CANADA'S MINING EXPORTS TO THE EU, % | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| | % Percentage | | | | |
| **NAICS 21211 - Coal Mining** | | | | | |
| EUROPEAN UNION (Total) | 1.70% | 1.86% | 1.53% | 1.28% | 1.92% |
| **NAICS 21222 - Gold and Silver Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | 0.57% | 0.15% | 0.01% | 0.01% | 0.83% |
| **NAICS 212231 - Lead-Zinc Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | 2.66% | 2.01% | 1.99% | 1.56% | 1.51% |
| **NAICS 212232 - Nickel-Copper Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | -- | -- | -- | -- | -- |
| **NAICS 212233 - Copper-Zinc Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | 0.01% | -- | -- | 0.01% | -- |
| **NAICS 21229 - Other Metal Ore Mining** | | | | | |
| EUROPEAN UNION (Total) | 0.59% | 0.59% | 2.13% | 2.02% | 1.90% |
| **NAICS 212392 - Diamond Mining** | | | | | |
| EUROPEAN UNION (Total) | -- | 0.22% | 2.84% | 3.06% | 3.31% |
| **NAICS 212393 - Salt Mining** | | | | | |
| EUROPEAN UNION (Total) | -- | -- | -- | -- | -- |
| **NAICS 212394 - Asbestos Mining** | | | | | |
| EUROPEAN UNION (Total) | 0.08% | 0.06% | 0.06% | 0.04% | 0.05% |
| **NAICS 212395 - Gypsum Mining** | | | | | |
| EUROPEAN UNION (Total) | -- | -- | -- | -- | -- |
| **NAICS 212396 - Potash Mining** | | | | | |
| EUROPEAN UNION (Total) | 0.23% | 0.26% | 0.28% | 0.22% | 0.19% |
| **NAICS 212398 - All Other Non-Metallic Mineral Mining and Quarrying** | | | | | |
| EUROPEAN UNION (Total) | 0.01% | -- | -- | -- | -- |
| **NAICS 33131 - Alumina and Aluminum Production and Processing** | | | | | |
| EUROPEAN UNION (Total) | 2.28% | 2.26% | 1.61% | 1.60% | 1.82% |
| **NAICS 33141 - Non-Ferrous Metal (except Aluminum) Smelting and Refining** | | | | | |
| EUROPEAN UNION (Total) | 4.49% | 4.43% | 3.31% | 4.11% | 4.14% |
| **EU SUB-TOTAL** | 12.61% | 11.86% | 13.77% | 13.90% | 15.67% |
| **Plus UNITED STATES** | 56.82% | 60.42% | 62.95% | 61.02% | 61.14% |
| **OTHERS** | 30.57% | 27.72% | 23.28% | 25.08% | 23.19% |
| **TOTAL (ALL COUNTRIES)** | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Source: Strategis Database, Industry Canada

## EU Non-Ferrous Mining Industry/Policy

In 1989, the EU realized that the mining sector needed to be integrated into the plans for the 1993 internal market and could only do so via coordination and a common approach in policy measures and budgetary instruments targeted towards industrial development.[94] The EU recognized that the Structural Funds' existing allocations and the loans of the European Investment Bank (EIB) could, if necessary, provide as far as possible the necessary assistance for the development of mining projects of Community scope, including exploration projects with particular attention to be paid to examining training and education requirements in the field of geology and mining engineering, with synergy possibly being sought between Member States and also with major mining third countries. [95] Since then the EU has been implementing various policies and instruments across the industry with the intent of strengthening the industry's production structures through improvements in competitiveness. Unlike the forestry industry, EU legislation specifically sets out the use of Structural funds to assist the industry.

For the purposes of this discussion, iron and steel sector will be excluded as will most energy related mining activities. This discussion will focus upon aluminum, copper, nickel, tin, and lead – large components of Canada's minerals trade with the EU. The only component of energy related mining that will be discussed is coal mining.

## Aluminium in the EU

The EU is a net importer of unwrought aluminium with imports supplying roughly 50% of the domestic demand. In 1999, the EU imported 3 million tons of aluminum, with Norway being the leading supplier (900,000 tons), followed by Russia (600,000 t), Brazil (279,000 t), Canada (127,000 t), the Gulf Countries (110,000 t) and Africa (particularly Ghana, Egypt, Cameroon). The PECO's[96] countries together exported about 400, 000 tons. Aluminum demand is usually generated by the aerospace industry and housing construction.[97]

After several years characterised by over-capacities, depressed prices and large stocking phenomenon, the sector is now undergoing massive producer consolidation in the raw materials and minerals industry. Mega-mergers in the aluminum industry (the largest consumer of refractories in the non-ferrous sector) are having a major impact on the refractories industry and its raw material suppliers. In 2000, Canada's Alcan, merged with Switzerland's Algroup[98] creating a $12.4 billion company with operations in packaging and aluminum and with facilities spanning the globe. Alcan now has strong global position in low-cost, high-quality rolled products with facilities in North and South America, Europe and Asia[99].

[94] 389Y0812(01), Council Resolution of 28 July 1989 on the development of the Community mining industry Official Journal C 207 , 12/08/1989 p. 0001 - 0001

[95] Council Resolution of 28 July 1989 on the development of the Community mining industry, Official Journal C 207 , 12/08/1989 p. 0001 – 0001, http://europa.eu.int/eur-lex/en/lif/dat/1989/en_389Y0812_01.html

[96] Programme for promoting the establishment of joint ventures in the countries of central and eastern Europe

[97] Purchasing, 'Aluminum facing global competitive issues', Boston, Dec 8, 2000

[98] Ceramic Industry, 'Sifting through the raw materials markets', Troy, Jan 2000

[99] Metal Center News, 'Alcan completes merger', Radnor, Dec 2000

In response, Alcoa (US) purchased Reynolds Metals, in 2000, preserving its status as the aluminum leader, The purchase was approved by competition authorities in the EU and US conditional upon Alcoa's sale of various properties, including facilities in Stade, Germany and Worsley, Australia.[100]. The company accounts for over 20% of the world's metallurgical and specialty alumina. Alcoa sold its majority stake in its Worsley alumina refinery to British mining company Billiton PLC. The UK company also purchased Rio Algom Ltd., a Canadian copper concern, allowing Billiton to become a major copper player, adding to its primary operations of aluminum, titanium and coal mining[101] The UK company is a major competitor for Canadian mining exports to the UK in aluminum, yet is also a major exporter of Canadian copper to the EU.

Aluminum has been a source of trade irritant between Canada and the EU. As Canada only has MFN status with the EU, Canadian aluminum exporters must pay a 6% tariff, compared to other exporters who pay little or no tariff duties according to their preferential trading agreements.

**Copper**

The EU production of unwrought copper approximates 1.4 million tons. This corresponds to less than half the EU internal demand. Russia and Chile are the main EU suppliers. In 1999, these two countries together provided 1.4 million tons : 575,000 tons from Russia and 825,000 tons from Chile. Other significant exporters were Poland (175,000 t), Kazakhstan ( 130,000 t), Peru (100,000 t) and Australia (50,000 t).

However, in the area of semi-finished products, the EU industry is the world leader with annual production exceeding 4.5 million tons and with an internal demand of approximately 4 million tons.

One of the most important problems for the EU refining industry is access to raw materials (minerals). For this reason, recycling and use of scrap and waste is essential to EU industry. However, it must be underlined that since the elimination of export restrictions on copper scrap in 1990, the EU industry has had increasing difficulties in finding sources of waste and scrap in the EU market at fair prices. Korea, China, and India, protected by a peculiar tariff schedule on refined copper, purchased copper scrap in Europe at artificially high prices, generating this anomaly. As a result, the EU refining industry is impacted two ways: a) the price of the raw material has been pushed up; b) the availability of copper waste and scrap in Europe has been further reduced.

Wire rod accounts for half of Europe's annual copper demand of five million tonnes, with 40% of that going into power cables. Builders in Germany are Europe's largest national copper consumer, [102] followed by cable makers and pipe manufacturers in use for the construction industry[103]

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[100] Purchasing, 'Alcoa now in control of Reynolds Metals ', Boston , Jun 1, 2000
[101] Wall Street Jounral, 'Alcoa to Sell a Stake in Refinery To U.K.'s Billiton for $1.5 Billion ',Eastern edition , Aug 29, 2000
[102] Purchasing, ' Copper demand falling in Europe as construction slows', Jul 15, 1999
[103] Ibid.

Zinc - Nickel - Lead

The EU relies heavily upon imports of zinc, nickel and lead, and exhibiting negative trade balances for all three metals. In 1999, zinc exports reached 175,000 tons against 400,000 tons of imports. The main EU suppliers were Norway (120,000 t), Kazakhstan (85,000 t), and Bulgaria (40,000 t).

Similarly, for nickel, 1999 imports reached 250, 000 tons as compared against 25, 000 tons of exports. Russia dominates the world nickel market. In 1999, Russia alone supplied about 50% of EU imports (115, 000 t) with the remaining supplies being sourced from Australia (25,000 t), Canada (20,000 t), and Norway (10,000 t).

The EU imported 420,000 tons of lead in 1999, compared to 90,000 tons of exports. Approximately 35% of imports originated from Australia, while the US (42.000 t), Morocco (37.000 t), Bulgaria (37.000 t), Kazakhstan (35.000 t), Poland (35.000 t) and Peru (30.000 t) supplied the majority of the remaining imports. [104]

**Barriers to Trade**

Table 15 summarizes the varying tariff rates charged by the EU on the imports of these metals. Note that the MFN rates for zinc and lead are sufficiently insignificant that they present more of a

**Table 15. EU Tariff Rates, Select Non-Ferrous Metals, as of January 1, 2000.**

| **Product** | **MFN (incl. Canada)** | **EFTA, PECO's, ACP & LDC's** | **GSP** |
|---|---|---|---|
| | | | |
| Aluminum | 6% | 0% | excluded |
| Copper | 0% | 0% | 0% |
| Zinc | 2.5% | 0% | Excluded |
| Nickel | 0% | 0% | 0% |
| Lead | 2.5% | 0% | Excluded |
| *Source: European Commission, http://europa.eu.int/comm/trade/goods/nonfer/nickel.htm* | | | |

The 6% tariff charged on MFN aluminum imports is a trade barrier to Canadian exports of aluminum to the EU. This becomes apparent when considering that major suppliers of aluminum to the EU are given duty-free entrance.

Non-Tariff Barriers

The EU utilizes various non-tariff barriers to trade in metals and mining products. Tariff quotas, quantitative limitations, environmental regulations, heatlh regulations, subsidies and financial support as well as standards and technical barriers to trade. The following examples illustrate these non-tariff barriers as they have been applied to Canadian exports in this sector.

[104] European Commission, http://europa.eu.int/comm/trade/goods/nonfer/nickel.htm

Chrysotile Asbestos

In the European Union, eleven Member States (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Sweden and the United Kingdom) severely restricted or banned the use of chrysotile asbestos. In the summer of 1999, the European Commission adopted an amendment to its directive on asbestos calling for a total ban among its Member States by January 2005 in applications where there is a safer alternative. Greece and Portugal, however, voted against the ban. Despite the relative control limit differences between countries, all agree that workers in the textile industry are at the greatest risk for harmful asbestos exposure[105]

Canada's exports to the European Union of asbestos and asbestos products amounted to some $44 million in 1995. The Canadian government, in partnership with the Government of Quebec, the asbestos industry, labour unions and the affected communities, seeks to maintain market access for chrysotile asbestos products to the European Union.[106]

Canada considers that the bans imposed by many EU Member States and the Commission cannot be justified by scientific risk assessments and are not proportional to the potential risks presented by chrysotile asbestos in specified applications. In Canada's view, the scientific evidence favours a controlled-use approach to chrysotile asbestos. In consequence, the federal government has pursued every opportunity to persuade the European Union and individual Member States to maintain controlled-use policies instead of imposing bans. The list of other chrysotile-producing countries includes Brazil, Russia, South Africa, Swaziland and Zimbabwe. With Canada, they have submitted a responsible use of asbestos memorandum to the European Union for consideration in its ban[107]

At Canada's request, a WTO dispute settlement panel was established to resolve the dispute on the ban of chrysotile asbestos with France. In its final report of September 18, 2000, the Panel concluded that the decree banning asbestos in France was in conformity with the WTO agreements. On October 23, 2000, Canada appealed certain aspects of the Panel ruling. In its report issued on March 12, 2001, the Appellate Body upheld the main conclusion of the Panel on the conformity of the French decree with the WTO agreements.[108]

Bans and Restrictions on Certain Non-Ferrous Metals

The European Commission has proposed a number of directives (on batteries and accumulators; waste management of electrical and electronic equipment; and end-of-life vehicles) that provide for restrictions and an eventual ban on the use of certain substances, including lead, mercury and cadmium, of which Canada is an exporter. These substance bans, if implemented in their proposed form, would have adverse trade implications for Canada with respect to both the non-ferrous metals in question and the manufactured products making use of them. While Canada shares the Commission's commitment to the protection of health and the environment, it continues to question whether such product bans are

[105] Occupational Health & Safety , ‘Many nations, many rules ‘, Waco , Aug 1999
[106] Oepning Doors to the World: Canada’s Market Access Priorities, 2001
[107] Occupational Health & Safety , ‘Many nations, many rules ‘, Waco , Aug 1999
[108] Opening Doors to the World; Canada’s Market Access Priorities, 2001

proportionate to any attendant risks and is concerned that such measures may be more trade restrictive than necessary to achieve their intended objectives.

Canada is of the opinion that the phase-out and ban of these materials in electrical and electronic equipment may result in negative environmental impacts by forcing adoption of substitutes that could have a more detrimental environmental impact than the substances they replace. Moreover, the phase-out and ban measures will have significant adverse trade implications affecting the design, manufacture, production and distribution of all electrical and electronic equipment around the world. Inasmuch as the draft directives mandate the selective treatment of individually identified materials and components, this represents an infringement into the manufacturing/production cycle of resource recovery and, as such, is an overly and unnecessarily prescriptive approach.

The draft directives refer to a "producers' responsibility network", but it is not clear who will be responsible for the creation of the end-of-life collection, the take-back and dismantling schemes, or the recycling, reuse and recovery programs that the draft directives set out. Canada is concerned by its potential to create a closed market for raw material resources whose access is limited to those treatment facilities operating strictly within a closed "producers' network". The draft directives also appear to contain export restrictions which may be inconsistent with international trade rules.

Canada has repeatedly requested information from the European Commission about the scientific foundations that may justify the prohibitions contained in the draft directives. However, no information to date has been offered. In the absence of comprehensive and scientifically sound risk assessments, Canada considers that the Commission is acting prematurely. Some of the draft directives are now before committees of the European Parliament. As discussions are still taking place within the European Union on the substance and the implementation of these draft directives, Canada will continue to monitor them and convey its concerns to the Commission, the Parliament and the Member States at the various stages of the EU decision making process. [109]

In Europe and Asia, lead-based stabilizers are still used in applications ranging from rigid PVC-the largest volume market-to wire and cable and packaging. However, plans are under way to substitute for lead in many applications. In the U.S., rigid PVC is dominated by organotin stabilizers, which are not under environmental pressure. There is pressure in the U.S., however, to move away from cadmium-barium stabilizers for flexible PVC, a transition that is well advanced in Europe[110]

In Europe, lead substitution is encouraging the introduction of mixed-metal alternatives by the leading participants Akcros, Barlocher (Munich), and Witco. Lead stabilizers are used mainly in window profiles, piping, and cable. Keijzer estimates that 25% of cable has switched to calcium-zinc in less technically demanding applications, with conversion most advanced in France, Italy, and Scandinavia. Keijzer says only about 8% of window profiles have switched.[111]

Scrap recycling

[109] Opening Doors to the World: Canada's International Market Access Priorities 2001
[110] Chemical Week, ‘PVC stabilizers get the heavy metals out’, New York, May 26, 1999
[111] Chemical Week, ‘PVC stabilizers get the heavy metals out’, New York, May 26, 1999

Environmental laws aimed at solid-waste disposal may pose even greater challenges for the metals recycling sector in this decade than it faced in the 1990s, suggests Caiman Rowntree, president of the British Secondary Metals Association. He fears that while the scrap-recycling industry worldwide has adapted well to green rules already in place, it's very existence still is threatened by legislators and activists who continue to equate "scrap" with "waste." Rowntree has been on the stump, noting that "although scrap is a vital and often expensive secondary raw material and not waste, the scrap-recycling trade has to battle continually against being tagged as a waste disposal operator." He notes that several scrap metal salvage and processing operations, some of them quite large, have been shut in Europe because the European Union adopted a controversial Basel Convention plant that cited some metal scrap as hazardous materials and banned trade of them between members of the O! rganization of Economic Cooperation and Development (OECD) and non-OECD countries. The U.S. scrap recycling industry still is fighting that plank of the Basel Convention. Still, Rowntree says that in coming years the scrap trade could expect to hear much of the so-called proximity principle-- where waste must be disposed of dose to its source of generation-and producer responsibility, under which producers are liable for what happens to their products at end-of-life. "If ignored, growing swathe of environmental rules such as these, along with the Basel Convention, could destroy the metals recycling industry," he says. [112]

Britain's metals recyclers and the government have thrashed out a definition of metal scrap as a recyclable, not waste, putting the country in line with the norm in the U.S., Canada and Japan. Tony Bird, president of the European Recycling Federation, says only the European Union has been out of step with global definitions. So, the U.K. Environment Agency and Britain's scrap recycling associations have launched a joint plain-speaking guide, freeing the recyclers from the costly legal constraints of being termed waste handlers. And, the British document now will be circulated to metal recyclers throughout the EU so the other 14 nations can clarify their home-country rules. Many policy makers within the European Commission continue to regard soap metal as waste until it enters a furnace or smelter. Patrick Neenan of the British Metals Federation, representing the ferrous scrap recycling sector, says the British document removes doubts on when scrap metal is waste and when it! is a raw material and reduces unnecessary costs and potential liability burdens for recyclers. Each year, the British metals recycling industry handles nine million tonnes of ferrous scrap and one million tonnes of non-ferrous scrap worth an estimated $5.G billion. The British metals recycling industry processes more scrap metal than steelmakers there can use, so a surplus of four million tonnes is exported[113]

[112] Purchasing, ‘Metal recyclers still face threat from green laws ‘, Boston , Mar 9, 2000
[113] Purchasing, ‘U.K. now views scrap as recyclable ‘, Boston , May 4, 2000

Coal

The EU is relatively poor in conventional energy reserves, as Table 1 shows. *
the rise in energy demand over the previous decades and is
not expected to act as a brake on consumption for the foreseeable future (see below). As a result, Europe is increasingly dependent on imports. Best available estimates show that under business-as-usual assumptions the Community's overall import dependency will rise from today's 50% to about 60 to 70% in 2020[114].

Even the accession of a number of Central and Eastern European states to the EU will not alleviate overall import dependency. They will only confirm the current trends in energy provision and use. In general, accession countries have a similar balance of energy supply and demand. However, there are differences in the operating environment, such as the age and technical performance of infrastructure and plant, including nuclear. Enlargement will bring additional factors to play in the supply security debate. For example, import dependence on mostly one source – Russia; the dominance of solid fuels; different legal and regulatory frameworks; the predominance of state-owned, vertically-integrated monopolies; low energy efficiency; obsolete technologies and persistent technical difficulties. In particular, the threat of demand outstripping supply is increased. These considerations are impossible to quantify statistically, but they are crucial to energy supply security.
Indigenous energy supply in the EU is beginning to decline and enlargement to include the CEES and/or Russia will not affect this trend.

Solid fuels include anthracite, bitumous coal and lignite. They are attractive in supply security terms because European reserves, particularly of hard coal, are plentiful. However, indigenous coal production is falling for a range of reasons, thus increasing EU dependence on imports, while the attraction of solid fuels for many operations has diminished due to the harmful emissions from its use. Technological advances (see below) could renew interest in coal.
Enlargement would accentuate this trend. In some applicant countries, coal is being phased out across some sectors for environmental reasons. At the same time, Poland, the major solid fuel producer among the applicant states, is scaling down its production to such a degree that Poland will soon no longer be self-sufficient in coal.

a) Reserves

Almost 80% of world coal reserves are now concentrated in North America, Asia Pacific and the former Soviet Union. Reserves in Europe, based on calorific value, are estimated at 72 billion tons of coal units (of which 70% is hard coal). Overall, coal represents 80% of fossil fuel reserves in the EU (96% in Eastern Europe). More limited reserves can be found in S. America and Africa. Coal reserves are being used at a far slowest rate than oil and gas, particularly within the EU and applicant countries.

b) Production

Hard coal production across the globe has grown over the last 25 years and is likely to go on expanding because of rising demand from developing countries. In 1999, coal production in the EU was 100 mtonnes, out of a total consumption of 247mtonnes, almost all of it dependent on subsidies. Production within Europe is falling and is likely to continue to do so as traditionally

[114] European Commission, ‘Green Paper – Towards a European Strategy for the Security of Energy Supply’

large producers continue to scale down production – as was seen in the UK in the 1990's. A similar trend is apparent in applicant countries, for example, Poland, where accession is likely to speed up the slimming down of their coal (mainly lignite) industry.

A key factor in coal production is cost. Despite its leading position as a developer of clean coal technology, the EU is at a disadvantage for structural and geological reasons. It has many deep mines which are expensive to operate. Drastic cost-reduction programmes have taken place in Germany and the UK which have reduced their cost and raised productivity – the UK now has the highest productivity among EU producers, but levels of production have been slashed. Similar developments are taking place in France and Spain. Compared to USA, Canada, Australia and S. Africa, productivity in the EU is relatively low. Poland's productivity is several times lower again. Despite the vast hard coal reserves of the EU and applicant countries, most EU hard coal production has no future without subsidies. Belgium has already ceased indigenous production. France plans to do so by 2005. In the UK, the price of coal delivered to generating companies delivered to generating companies lies above world levels. The UK coal industry is the only EU one to operate without state subsidies, but the number of operating mines and employment in the coal industry are a fraction of what they were 10 years ago. It is now proposed to reintroduce state aids for the coal industry. The question of state aids to the coal industry goes beyond the scope of this document but may be an issue in energy supply security policy.

Eastern European developments are dominated by trends in Poland. Overall, consumption is falling – from 166mtonnes in 1990 to 118mtonnes in 1998. The same period saw falls in production, mainly of lignite, from some 178 mtonnes to 135 mtonnes.

Coal has in the past been associated with pollution, and is still a large emitter of CO2.Thecoal industry has introduced measures to reduce pollution and new technologies are being developed which could further cut harmful emissions from coal generation, including CO2 (see below). These could make coal more attractive and benefit supply security.

Economically, coal offers the advantage over oil and gas of relatively stable prices, partly due to an excess of supply over demand. Over the last 15 years, average coal import prices have fluctuated by no more than 20$/tce, compared to over 120$tce for crude oil.

Demand

EU coal demand is following a determined downward trend, due to the wide-scale removal of coal from domestic households, the substitution of coal generation by gas and the restructuring of the steel industry. Domestic production is falling even more quickly, leading to a slight increase in imports. Imports are not rising as quickly as they would have if EU coal demand had remained constant.

Enlargement could benefit the EU's coal balance if Eastern European coal satisfied some of the demand in the existing EU. However, a more likely scenario is that restructuring in accession states leads to new falls in production without corresponding falls in demand. The net result is likely to be increased dependence on coal imports.

The medium term projection is that demand for coal would increase after 2010, especially for power generation, due to a projected price increase of gas and the decommissioning of ageing nuclear power plants.

d) Imports

Imported coal is far cheaper than domestically produced coal. At an average of 42 € /tce, imported coal costs a fraction of, for example, German coal, at 143 € /tce. Coal imports come from a wide range of countries, but mainly from Australia, Canada and USA. This factor reduces the risk element of dependence on imports. Providing that these reserves are available to European markets, there are more than sufficient alternative low-cost reserves accessible to markets in

other parts of the world.
Coal - Conclusions
From an economic and energy supply viewpoint, coal is attractive. There are extensive world-wide reserves, including in Europe, and competitive, well supplied markets keep prices low and stable. However, coal has been phased out from homes (in earlier “clean air” legislation) and, more recently, electricity generation, where gas is the preferred choice. Restructuring of the steel industry has also removed an important customer.
In the long term, coal is likely to remain important as new technologies come on stream which reduce extraction costs, reduce emissions and dramatically increase its efficiency. After the expiry of the ECSC Treaty in 2002, mechanisms will remain to monitor prices and promote clean technologies. Thus, it is likely that coal will continue to be used for electricity generation in the long term, to the benefit of energy diversity and security of supply.[115]

The use of solid fuels is expected to continue to decline until 2010 both in absolute terms and as a proportion of total energy demand. Beyond 2015,however,due to the power generation problems that will ensue from the decommissioning of a number of nuclear plants, and the partial loss of competitiveness of gas based generation, due to higher natural gas import prices, the demand for solid fuels is projected to increase modestly.[116]

On the other hand the sector where production is more concentrated concerns mainly metallic minerals (e.g. iron, copper, zinc), where Finland, Greece, Ireland, Portugal, Spain and Sweden together account for some 75% of total EU production
With regard to metallic minerals, the EU accounts for between 2 and 3%8 of world production. The overall minerals trade balance is negative (ca 8 billion ), showing the strong dependence of the EU on imports for its raw materials supply. Of total EU imports of 21.5 billion in 1998, more than three-quarters have its origin in non-OECD countries; Brazil, South Africa and China are among the most important suppliers for the EU [117]

susidies
2001/58/ECSC: Commission Decision of 20 September 2000 authorising France to grant aid to the coal industry for 2000 (Text with EEA relevance) (notified under document number C(2000) 2923)
OJ L 021 23.01.2001 p.12

301D0114
Commission Decision of 15 November 2000 on the modernisation, rationalisation and restructuring plan for the United Kingdom coal industry, covering the period from 17 April 2000 to 23 July 2002 (Text with EEA relevance) (notified under document number C(2000) 3709)
OJ L 043 14.02.2001 p.27

[115] European Commission, ‘Green Paper – Towards a European Strategy for the Security of Energy Supply’
[116] European Union Energy Outlook to 2020
[117] European Commission, Communication From the Commission, ‘Promoting sustainable development in the EU non-energy extractive industry’, 2000

301D0162
2001/162/EC: Commission Decision of 13 December 2000 on the granting by Spain of aid to the coal industry in 2000 (Text with EEA relevance) (notified under document number C(2000) 4190)
OJ L 058 28.02.2001 p.24

301D0340
Commission Decision of 13 February 2001 authorising the United Kingdom to grant aid to the coal industry, covering the period from 17 April 2000 to 31 December 2000 (Text with EEA relevance) (notified under document number C(2001) 401)

OJ L 122 03.05.2001 p.23
301D0361
Commission Decision of 21 December 2000 on German aid to the coal industry for 2000 and 2001 (Text with EEA relevance) (notified under document number C(2000) 4407)

OJ L 127 09.05.2001 p.55
301D0597
2001/597/ECSC: Commission Decision of 11 April 2001 authorising the United Kingdom to grant aid to nine coal production units for the period from 17 April to 31 December 2000, and to amend the restructuring plan for the coal industry (Text with EEA relevance) (notified under document number C(2001) 1089)
OJ L 210 03.08.2001 p.32

301D0807
Commission Decision of 25 July 2001 authorising the United Kingdom to grant aid to four coal production units for 2001 (Text with EEA relevance) (notified under document number C(2001) 2434)

OJ L 305 22.11.2001 p.27

302D0082
Commission Decision of 17 October 2001 authorising the United Kingdom to grant aid to two coal production units for 2000 and 2001 (Text with EEA relevance) (notified under document number C(2001) 3081)
OJ L 035 06.02.2002 p.19

302D0171
Commission Decision of 2 October 2001 on German aid to the coal industry for the period from 1 January 2002 to 23 July 2002 (Text with EEA relevance) (notified under document number C(2001) 3005)
OJ L 056 27.02.2002 p.27[118]

Community coal production has a structural deficit; the geological conditions are such that there is no scope for reducing production costs to a level where it could eventually compete with coal imported

[118] Eur-Lex, Promotion of the coal industry, Secondary legislation, http://europa.eu.int/eur-lex/en/lif/reg/en_register_122010.html

from third countries. The industry is therefore doomed in the very short term if no action is taken to allow State aid after the ECSC Treaty expires.
A complete end to coal production in the Community would be bound to have effects on the security of the EU's energy supply. Certain factors characteristic of the current energy context, more particularly the continuing important role of solid fuels as an energy source and the recent trend in prices of oil products and natural gas, would, if combined with total dependence on coal imports from third countries, increase the risks and uncertainties as to the long-term security of supply.
It is therefore necessary against this background to take measures to guarantee the availability of certain subsidised coal production capacities in the Community, in order to cover eventual risks to the energy market in the long term.
A State aid scheme to maintain a minimum coal production capacity will be one element of a package of measures, including action to promote the share of renewables in electricity production. Taken together, these measures will contribute to the creation of a base quantity of indigenous primary energy sources that will enable Member States to improve significantly the security of energy supply.
Achievement of the security of supply objective, as justification for maintaining subsidised Community coal production, must comply with two fundamental principles. Firstly, the objective must be achieved under acceptable economic conditions; this implies that the efforts to restructure and reduce activity in the coal industry which have characterised the State aid schemes implemented under the ECSC Treaty must be continued after 23 July 2002. Secondly, this essential restructuring of the coal industry must take account of the social and regional implications of the reductions of activity it entails, drawing on the positive experience built up in the framework of the ECSC Treaty.
The implementation of these two principles is translated, in the proposed aid scheme, in the definition of the two broad categories of aid: aid to safeguard resources and aid for the reduction of activity. These two categories are supplemented by aid to cover exceptional costs to enable the coal undertakings to finance inherited liabilities.
Aid to the coal industry must be reduced steadily and gradually. The degressive nature of aid to the coal industry could enable Member States, in the context of a primary energy base, to reallocate aid to the energy sector according to the principle of gradually transferring the aid granted to the coal industry to renewable energy sources. Such a redistribution of aid would make it possible to achieve this objective along with that of reducing CO2 emissions to the air, while continuing to ensure the security of supply objective.
The scheme has a term of eight years; it is due to expire on 31 December 2010. Before 31 December 2006, however, the Commission will have to review the respective share of the different indigenous primary energy sources in each Member State. It will assess the effectiveness of the indigenous primary energy sources base, especially the actual contribution of indigenous coal to increasing be EU's long-term security of energy supply, as part of the strategy of sustainable development. In the light of the development of renewable sources of energy, this information will help to determine how much coal is needed in this indigenous primary energy sources base. The Commission will then present appropriate proposals to the Council for changes to the aid for the period after 1 January 2008.
On the basis of the above, the Commission proposes to the Council, after receiving the opinion of the European Parliament, the ECSC Consultative Committee, the Economic and Social Committee and the Committee of the Regions, that it adopt the proposal for a regulation on State aid to the coal industry[119]

[119]Eur-Lex, Legislation in preparation , Commission proposals, Proposal for a Council Regulation on State aid to the coal industry,24/09/2001 http://europa.eu.int/eur-lex/en/com/dat/2001/en_501PC0423.html

Two of the candidate countries for accession to the European Union are major coal producers: Poland and the Czech Republic, which produced 112 and 14 million tonnes of coal respectively in 1999.

| State Aid to Coal Mining, 1995 - 1997 and 1997 -199 in constant prices (1998) | | | | | | |
|---|---|---|---|---|---|---|
| | Yearly Avg of aid not destined to current production (in million Euro) | | Yearly average of aid destined to current production (million of Euro) | | | |
| | 1995-1997 | 1997-1999 | 1995-1997 | | 1997-1999 | |
| | | | Euro per employee | % of total aid | Euro per employee | % of total aid |
| Germany | 2079 | 4345 | 58.453 | 96 | 61.939 | 91 |
| Spain | 2983 | 3674 | 29.799 | 72 | 34.994 | 66 |
| France | 6048 | 6101 | 12.806 | 22 | 34.899 | 38 |
| Portugal | 6 | | | | | |
| UK | 11085 | 6039 | | | | |
| Total | 22202 | 20160 | 43.537 | 73 | 47.887 | 73 |

*Source:European Commission, 'Ninth Survey on State Aid in the European Union', 2001*

| WORLD COAL RESERVES*, 1999 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| World Reserves (Gtoe) | World Production (Gtoe) | Reserves in Years | Reserves by Country or Region | | | | | | | | | |
| | | | **Europe** | **Former USSR** | Middle East | China | India | Australia | **North America** | Japan | Central & South America | Africa |
| 984211^ | 2.1 | 156 | **12.4** | **23.4** | 0 | 11.6 | 7.6 | 9.2 | **26.1** | 0.1 | 2.2 | 6.2 |

*Including sub-bitumous and lignite.

^million tonnes

*Source: European Commission, 'Green Paper – Towards a European Strategy for the Security of Energy Supply'*

## Imports of Coal to the European Union

| 1998 - Million tonnes<br>Imports from non-EU countries | Steam Coal Volume | Steam Coal Share % | Coking Coal Volume | Coking Coal Share % | Total Imports Volume | Total Imports Share % |
|---|---|---|---|---|---|---|
| South Africa | 37.8 | 34.8 | 0.9 | 2.0 | 38.7 | 25.1 |
| United States | 8.0 | 7.4 | 20.7 | 45.4 | 28.7 | 18.6 |
| Australia | 8.4 | 7.8 | 12.8 | 28.0 | 21.2 | 13.8 |
| Columbia | 19.6 | 18.0 | 0.1 | 0.2 | 19.6 | 12.7 |
| Poland | 15.8 | 14.6 | 2.8 | 6.0 | 18.6 | 12.1 |
| Indonesia | 5.7 | 5.3 | 1.1 | 2.5 | 6.8 | 4.4 |
| Canada | 0.1 | 0.1 | 4.9 | 10.6 | 4.9 | 3.2 |
| Others | 7.7 | 7.1 | 0.7 | 1.5 | 8.4 | 5.4 |
| Czech Republic | 1.2 | 1.1 | 1.5 | 3.2 | 2.6 | 1.7 |
| Russia | 2.1 | 1.9 | 0.2 | 0.5 | 2.3 | 1.5 |
| China | 2.2 | 2.0 | 0.0 | 0.0 | 2.2 | 1.4 |
| **TOTAL** | **108.5** | **100.0** | **45.7** | **100.0** | **154.1** | **100.0** |

**Source:** Organisation for Economic Co-operation and Development

Investment

Expanding on the general discussion of EU-Canada investment relations from Chapter 3, transatlantic investment activity in the mining/metals/minerals sector is very active. In fact, Canadian investment in the EU's natural resources focussed on non-ferrous metals and primary metal products in 1998 – this sector was also the only recipient from the natural resource industry to benefit from EU investment that same year.[120]

Canada is the world's leading mineral exploration nation and is becoming a leading supplier of capital for the mining industry, especially through the worldwide exploration programs of Canadian-based junior mining companies. This capital is being raised, not only from investors in Canada, but also from investors residing abroad. In 1996, the larger Canadian-based mining companies, spent nearly 30% (the dominant share), of worldwide exploration activity by the world's larger companies. Canadian companies have interests in over 8300 mineral properties worldwide, 3400 of which are located in 100 foreign countries. They conduct the largest share of the world's mineral exploration programs, not only in Canada, but also in Latin America and in other countries. Since the early 1990s, the average compound rate of growth in the size of their out-of-Canada exploration budgets has been 45% annually. As a result, the larger Canadian-based mining companies now target about 70% of their exploration budgets abroad[121]. Incentives for Canadian firms to invest abroad include:

- Canadian tax rules also facilitate Canadian investment abroad. Canadian rules allow the deductibility of interest incurred by borrowing, whether in Canada or offshore, for investment in foreign subsidiaries,
- intercorporate dividends are exempt from Canadian income tax
- The profits generated by subsidiaries operating in a country with which Canada has a tax treaty can be repatriated free of Canadian income tax
- Canadian companies that invest directly in foreign mining projects and incur exploration and development expenses can deduct, under certain conditions, up to 100% of these expenses
- Canadian rules allow the pooling of exploration and development expenses, rather than requiring property-by-property or country-by-country accounting. As a result, proceeds from the sale of foreign resource properties can be sheltered against Canadian tax by the total amount of unclaimed foreign exploration and development expenses.
- These provisions are very helpful to those Canadian companies that have properties outside of Canada, and should increase the attractiveness of Canadian companies to foreign investors[122] as discussed following.

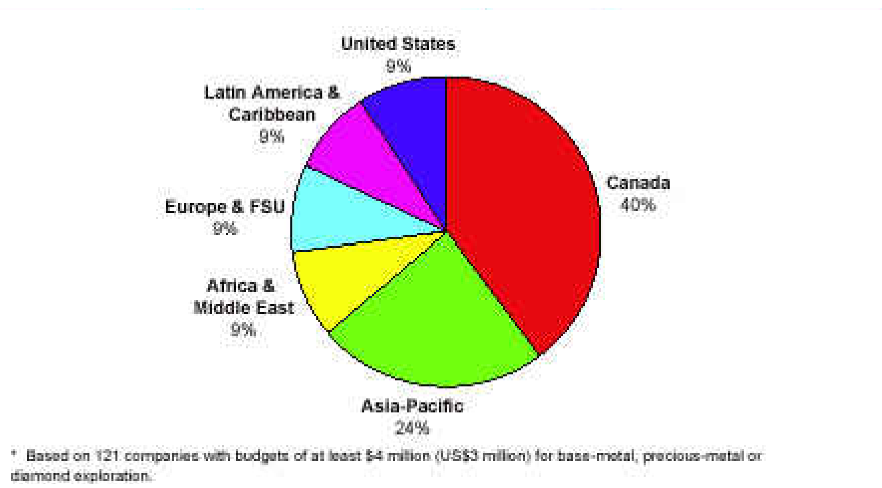
The increase in Canadian investment abroad has been accompanied by foreign multinationals increasing their mineral exploration budgets for Canada. As a result, Canadian and foreign companies spent $873 million on exploration in Canada during 1996. European (and other) investors are interested in investing in Canada's mining/minerals sector for the reasons listed above as well as:

[120] Cameron, Bill, 'Impact of Tariff Elimination',
[121] Brewer, Keith and Andre Lemieux, 'Canada's Global Position in Mining: Metals Finance, 4th International Conference, Finance for the Global Metals Industry, Toronto, May 7 – 9, 1997.
[122] Brewer, Keith, 'Mining: Canada's Competitive Advantage,',

- By investing in Canada, a company gains tariff-free access to the U.S. (Canada-U.S. Free Trade Agreement of 1989) and Mexican (North American Free Trade Agreement of 1994) markets - a combined market of more than 360 million people.
- In terms of direct investment, Canada imposes few restrictions on ownership and control. Generally speaking, except in the case of uranium, as a matter of policy, the federal government does not impose, barriers to foreign investment in Canada's minerals and metals industry. However, Canada's Investment Canada Act does allow the federal government to review (and possibly disallow, although it has never happened) transactions involving the foreign takeover of a large Canadian business
- no foreign exchange or currency controls
- lack of restrictions on borrowing from abroad
- no restrictions on the remittance of dividends, profits, interest or royalties from Canada.[123]

However, despite the relative openness of the investment climate in Canada, effective barriers to investment in the mining industry do exist, including local ownership requirements and technical barriers. Barriers to investment tend to be more prevalent in less developed and transitional economies[124].

**Figure 3. Regional Distribution of the World's Larger Exploration Companies, 2000**




Source:

[123] Brewer, Keith and Andre Lemieux, 'Canada's Global Position in Mining: Metals Finance, 4th International Conference, Finance for the Global Metals Industry, Toronto, May 7 – 9, 1997.
[124] The Canadian Chamber of Commerce in partnership with Industry Canada , Foreign Investment Barriers, Ottawa, March 31, 2000

Canada Competitive position

Canada has been blessed with a varied and rich geological structure that Canadians have learned to successfully and economically exploit. This mining experience and technical expertise, fostered by a stable business environment and a superior mining-related equipment and services sector, have given Canada's mining industry a competitive advantage in the global mining community and an ability to search for and develop mineral deposits anywhere and everywhere in the world[125]

Many factors have brought about Canada's dominant position in global mining and mine finance. Decades of accumulated Canadian experience and expertise in geology, geophysics, geochemistry, engineering, mineral production, law, taxation, investment analysis, due diligence, as well as in mineral policy and other disciplines, provide the momentum. The legal framework in Canada for raising funds is conducive to risk taking, to the valuation of mineral assets, and to the buying and selling of those assets among prospectors, investors, developers and producers. Canadian legislation with respect to investment in Canada or abroad makes the tax burden on profits generated from minerals at least comparable to, if not less burdensome than, that in other mineral producing jurisdictions

Canadians have pioneered the development of geophysical exploration techniques, be they ground or airborne. Canadian companies have captured 70% of the world market share for airborne geophysical equipment, while Canadian geophysical equipment manufacturers, related software developers and data interpretation companies hold about 60% of world markets. Canadian mining companies are well on the way to creating the "intelligent mine" - one that can automatically detect changing conditions and respond quickly. In addition, more than 85% of the mining work force in Canada uses electronics, robotics and advanced telecommunication technologies. Canada has also developed entire automated systems for mineral processing. Canadian technologies improve mine safety, enhance environmental systems, and increase productivity, allowing mining companies to explore deeper, low-grade orebodies. Canada's expertise in mining equipment ranges from small-diameter borehole survey instruments to tunnelling equipment to dual rotary drills that drill and case at the same time. Canadians are also at the forefront in successfully implementing the Global Positioning System in open-pit mining. Canadian resource companies have also been innovators in developing leading-edge technologies to improve environmental performance. Canadian-based environmental technologies and service companies are enjoying rapid international growth. The impact of technological innovation on the productivity of Canada's mining sector has been impressive, far surpassing the productivity gains experienced by the Canadian economy as a whole between 1982 and 1996[126]

Globalization of the mining industry is still proceeding, and Canadian companies, because of their experience and expertise, are well positioned to continue to respond to the opportunities that are being created. Moreover, there now exist unprecedented opportunities for companies that provide goods and services required by exploration and producing companies to follow their domestic customers abroad and to significantly expand the geographic scope of their businesses[127]

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[125] Brewer, Keith, 'Mining: Canada's Competitive Advantage,',
[126] Brewer, Keith, 'Mining: Canada's Competitive Advantage,',Natrual Resources Canada, 1998
[127] Brewer, Keith and Andre Lemieux, 'Canada's Global Position in Mining: Metals Finance, 4th International Conference, Finance for the Global Metals Industry, Toronto, May 7 – 9, 1997.

Competitors – Threats to Canada, Potential Allies

## Chapter 5. Strategies and Recommendations

### The European Perspective - Canada’s General Barriers to Trade

TARIFF BARRIERS

As part of its Uruguay Round commitments, Canada has been reducing tariffs across the board. The introduction of the new Customs Tariff, which came into effect on January 1, 1998, introduced a number of liberalising measures such as the reduction to zero of virtually all tariff rates as they fall below 2 percent as a permanent feature of the new tariff and the acceleration to 1 January 1998 of most of the final UR reductions that were scheduled for implementation on 1 January 1999. In January 2000, MFN tariffs averaged 7,2%, down from 7,8% in 1998.

Yet, tariff protection remains significant in some sectors, with tariff peaks still affecting items such as food products, textiles and clothing, footwear, and shipbuilding. At the same time, tariffs had been virtually eliminated in Canada's trade with the United States. Two new Free Trade Agreements, with Chile and Israel, bring to ten the number of Canada's preferential tariff regimes. The European countries are trading partners not eligible for any form of Canada's preferential treatment.

In addition, tariff escalation, i.e. tariffs that rise with the stage of processing, remains a barrier for non-U.S. exporters trying to export higher value-added products to the Canada whose average tariff on finished goods is nearly twice the level on raw materials.

- Tariff Predictability (Maximum Rates Permitted Under WTO Bindings)
  Over 99% of tariff lines are fully bound in WTO. In most cases, bound rates are the effectively applied tariff rates. More than 93% of the tariffs consist of ad valorem rates. In general, Canada's tariffs are bound only slightly above the applied levels.

- Tariff Quotas
  In compliance with its WTO commitments, Canada converted its agricultural import controls to a system of tariff rate quotas (TRQs). Under these TRQs, imports within the TRQ level (i.e. within the access commitment), will require a permit issued through the Export and Import Controls Bureau (EICB) in order to benefit from the lower rate of duty, while imports over the quota level, subject to higher rates of duty, may enter under a General Import Permit. In January 2000 there were 132 tariff lines covered by out-of-quota tariffs.

NON - TARIFF BARRIERS

- Levies and Charges (Other than Import Duties)
  A number of federal and provincial taxes, including provincial sales taxes and excise taxes, are levied on both domestic production and imports. Excise taxes are levied on gasoline, alcoholic beverages, tobacco products and jewellery.

  The federal Goods and Services Tax (GST) is a 7% VAT on nearly all goods and services.

Import Quotas

As part of the UR negotiations, quotas on imports of agri-food products have been converted into tariff quotas. Canada maintains quotas on some textiles and clothing products.

Import Surveillance

Imports of carbon are subject to import surveillance.

State Trading Enterprises

Canada's state-trading enterprises, as notified to the WTO, are the Canadian Wheat Board (CWB), the Canadian Dairy Commission (CDC), the Canadian Freshwater Fish Marketing Corporation, the ten provincial liquor boards and the Ontario Bean Producers Marketing Board.

Standards and Other Technical Requirements

Canada had exploratory discussions with the European Union since 1992 on a possible Mutual Recognition Agreement (MRA) for conformity assessment of regulated and non-regulated products. An Agreement in principle was reached covering telecommunications and information technology equipment, pharmaceuticals, medical devices, recreational craft and personal protective equipment. Finally, the EU-Canada Agreement on Mutual Recognition of Conformity Assessment was signed in London on 14 May 1998, in the margins of the EU-Canada Summit. Such an agreement should eliminate the need for double testing.

Technical barriers to trade consisting of consumer-related measures and other technical standards prevent free inter-provincial trade. These internal barriers potentially also diminish access for foreign products. Provincial inspection regulations may impede inter-provincial trade and may, consequently, affect international trade. The effects of inter-provincial barriers to trade on imports depends on the type of regulation. While preferences which exclude products from other provinces are most likely also to exclude imported products, certain differences in norms and regulations may actually stimulate imports.

Government Procurement

Canada's commitments under the WTO provide access to federal government procurement to approximately one hundred government departments and agencies, but coverage is not provided for a defined list of exceptions including communications equipment, transportation equipment, and shipbuilding and repair.

Procurement by sub-central governments is not subject to Canada's obligations under the WTO. Since expenditure by provincial and local authorities is large relative to federal expenditure, policies implemented by provincial governments may therefore be of higher economic importance than in other countries. Expenditures by provincial governments have not opened to external competition under any agreement on procurement entered into by Canada. Indeed, the WTO Agreement on Government Procurement applies only to the federal level but not to the sub-federal level. At provincial level, legally established preferences exist that give priority to small business. This can take the form of a price preference, whereby a small business must be preferred to another supplier even if its bid is up to a certain percentage higher; a programme whereby the procurement is exclusively reserved for small business; and quota systems which allocate a percentage of total awards to small business.

The following discriminatory sub-federal procurement rules are in force:

- Quebec: Canadian preference applied when there are two or more Canadian suppliers
- Ontario: A 10% price preference is given on the portion of supplier's bids consisting of Canadian content. In addition, preferential supplier selection is allowed if economic or industrial benefits could result therefrom.
- Saskatchewan: Saskatchewan companies are given priority. In practice, a 10% premium is awarded for local manufacturers.
- Manitoba: discretionary price preference for Manitoba-made products. Preference awarded on the basis of employment, technological and fiscal revenue considerations.
- British Columbia: discrimination in favour of goods made within Canada on the basis of employment, investment and export potential criteria.

Local Content Schemes

Canada maintains local content rules in the publishing and audio-visual industries.

Trade Defence Instruments not in Conformity with WTO

Canada is one of the most active users of antidumping actions, with 85 definitive duties in force at end June 2000, up from 73 in June 1998. Some 35 countries or customs territories are affected by these measures And some 51 duties (58% of the total) cover steel products.

In January 2001 Canada continues antidumping measures against imports of the following European products:

- Refined sugar, from Denmark, Germany, the Netherlands and United Kingdom
- Cold-rolled steel sheet from Belgium
- Hot-rolled carbon steel plate, from Finland, Italy and Spain
- Hot-rolled carbon and alloy steel sheet, from France
- Stainless steel round bar, from France, Germany, Italy, Spain, Sweden and United Kingdom, and
- Corrosion resistant steel sheet, from Germany

Five price undertakings were in force as of January 2001, whereby exporters undertake to export to Canada above a set (confidential) price. Two undertaking measures concern oil and gas well casing from Germany and cigarette tubes from France.

In January 2001, canned ham from Denmark and the Netherlands remains subject to countervailing duties as well as refined sugar from all EU countries.

## INVESTMENT RELATED MEASURES

Direct Foreign Investment Limitations

Canada's economic development has depended for a large part on foreign investment. Foreign investors control about one-quarter of total Canadian non-financial corporate assets. The stock of foreign direct investment in Canada was equivalent to 20% of GDP. The aggregate stock of the EUs direct foreign investment in Canada constituted 18.9% of the total stock of FDI in Canada. ($240 billion) and two-thirds (65.9 %) of the non-U.S. share of FDI in Canada. Six of the top 10 investment source countries are Member States of the European Union. EU investments are concentrated in the finance and insurance; food, beverage and tobacco; energy; and chemical products and textiles industries. Some 3,500 European subsidiaries have been established in Canada. In 1999, the EUs stock remained relatively stable at $45.2 billion.

The legal framework governing foreign direct investment in Canada is established by the Investment Canada Act of 1985. Foreign investment is subject to review in certain cases and specific restrictions exist on inward direct investment in certain sectors. No such restrictions exist specifically for the machine industry. All new foreign investments are subject to notification requirements. Acquisition of control of a Canadian business by a non-Canadian is subject to approval by Investment Canada for businesses with assets over a particular amount (C$179 million in 1998), adjusted each year to reflect any changes in nominal GDP.[128]

[128] European Commission, Market Access Sectoral and Trade Barriers Database

| The EU's 'Wish List' in its Trade with Canada – Goods, Services, Investment[129] | |
|---|---|
| **TRADE IN GOODS** | |
| *Industry/ Policy Area* | *Barrier to Trade* |
| **Intellectual Property** | |
| Trademarks | Legislation on Appellations of Origin and Geographic Indications - Canada does not give protection at of geographical indication or accept the registration of Prosciutto di Parma. Conflict of ownership of the trademark between Maple Leaf Foods and Consorzio del Prosciutto di Parma |
| Patents (including plant varieties) | TRIPS requires all WTO members to provide a patent term of at least 20 years from the date of filing of the patent application. Canada's Patent Act allows for a term of 17 years from the date the patent is granted.<br>In 2000, the WTO dispute settlement panel concluded that Canada's term of protection for pre-1989 patents was inconsistent with Canada's obligations under the TRIPS and requested Canada to bring its measures into conformity with its obligations under the WTO Agreement.<br>Canada is appealing aspects of law and interpretation and requested the Appellate Body to reverse the findings and conclusions of the Panel. It did not and Canada will have to indicate its intentions with respect to implementation within 30 days of adoption |
| **Aircraft** | |
| Subsidies | Canada's assistance to the aircraft industry under the Technology Partnerships Canada (TPC) constitutes export subsidies, contrary to Articles 3.1 and 3.2 of the Agreement on Subsidies and Countervailing Measures (SCM), according to a WTO panel report of 14 April March 1999 (WTO document wt/ds70/r). Also debt financing for the export of regional aircraft under the "Canada Account" constitutes export subsidies incompatible with Article 3.1 and 3.2 of the SCM Agreement |
| **Automotive** | |
| Tariffs | The EU and Japan have argued that the Canadian Auto Pact with the US and its FTA's with Isreal and Chile provide discriminatory preferential tariffs to these trading partners, hence in violation of Canada's MFN obligations at the WTO. The WTO Panel agreed and recommended that WTO panel that the Auto Pact is in breach of several key provisions of the GATT and the WTO Agreement on Subsidies. In 2000, Canada informed the WTO that it intended to comply with the DSB recommendations and rulings and asked for a reasonable period of time to comply. Both Japan and the EC object to the need for time as the repeal of the measure did not require any action on the part of the legislative branch of the Canadian Government. |

[129] European Commission, Market Access Sectoral and Trade Barriers Database

| | |
|---|---|
| **Automotive continued** | |
| Import Prohibitions | Canada applies an import ban on used or second-hand motor vehicles of all kinds. The prohibition is not applicable to the United States. Imports of second-hand vehicles from Mexico are to be progressively liberalised, with unlimited access planned for 2019<br><br>Used trres from other countries than USA are not permitted into Canada, because, according to the Canadian Authorities, the acceptable "records for retreaded tyres generally do not exist as such tires are uniquely prepared and produced". Non compliance with this requirement is the specific reason why retreaded tires from other countries than USA are not permitted into Canada |
| Standards and Techincal Barriers | Tire industry needs to harmonise its standards in order to improve multilateral trade and market access. Imports of recycled tires are only permitted from the United States, provided they comply with technical requirements. Used tires from other countries than USA are not admissible |
| **Chemical** | |
| Tariffs | The Uruguay Round harmonisation of chemical tariffs and the elimination of tariffs on pharmaceutical intermediates lowered tariff barriers for the sector. In January 2000 Canada retains a 7,4% ad valorem duty on rubber products and the EU feels that Canadian tariffs on rubber and plastics, which will average 6,9 percent at the end of Uruguay Round reductions, are a barrier to trade |
| **Pharmaceutical** | |
| Standards and Technical Barriers | The variance in process and policies among provinces has a significant impact on production and trade in pharmaceuticals. Each province has its own eligibility criteria and submission process for inclusion of drug products on its drug formulary, for determining approval of drugs to be listed under the provincial health plan. The differing criteria for listing, de-listing and re-imbursement of drugs may mean that a drug could be eligible under one provincial plan but not others or may be reimbursed at different price rates across the provinces. Other decisions taken at provincial level include the kind of advertising that may be allowed. |
| **Iron, Steel & Non-ferrous Metals** | |
| Tariffs | Canada has lowered its tariffs on basic metal industries from an average of 7,7% in 1998 to 3,5% in 2000. In the fabricated metal products industry, tariffs continue to exceed 12% for stamped, pressed, and coated metal products as well as most structural metal goods, wire gauze, iron fittings for coffins, knives, scissors and secateurs.<br>As a result of the Uruguay Round, Canada and other participating countries have agreed to eliminate import duties on the great majority of steel products by the year 2004 |

| Iron, Steel & Non-ferrous Metals continued | |
|---|---|
| Import Surveillance | The import monitoring programme for carbon steel products and speciality steels, managed by the department of Foreign Affairs and International Trade Canada, still applies. It has been extended to 31 August 2002. Carbon steel products are defined as semi-finished steel (ingots, blooms, billets, slabs and sheet bars), plate, sheet and strip, wire rods, wire and wire products, railway-type products, bars, structural shapes and units and pipe and tube |
| Trade Defence Instruments not in Conformity with WTO | In November 2000, Canada continues antidumping measures against imports of the following European products:<br><br>- Cold-rolled steel sheet, from Belgium and Spain<br>- Hot-rolled carbon steel plate, from Finland, Italy, Spain and France<br>- Hot-rolled carbon and alloy steel sheet, from France.<br>- Stainless steel round bar, from France, Germany, Italy, Spain, Sweden and United Kingdom, and<br>- Corrosion resistant steel sheet, from Germany. The antidumping duties have been in place since 1994. In August 1999 these duties were rescinded on similar goods from France, Spain, Sweden and United Kingdom. On 3 November 2000 Canada has initiated an anti-dumping investigation on the same products imported from Portugal. Of the 51 Canadian antidumping duties that were in force in June 2000, 58% covered steel products. During the last several years, the reviews of Canadian Customs and Revenue Agency (CCRA) on antidumping measures against imports from EU have meant onerous (and very costly) information requirements for the companies concerned. For this reason European steel companies have in the past decided not to provide such information and have thereby been deemed by the CCRA to be "not cooperating" with the consequence that their imports are penalized with the highest dumping margin found in the original investigation by a cooperating company. |
| **Machinery** | |
| Gov’t Procurement | Provincially restricted tenders continue to limit competition in steam and hydraulic turbines, resulting in the fragmentation of the market and a loss of efficiency on international export markets. Similar practices increase unit costs of electrical wire and cable production, as numerous industries remain obliged to maintain provincial manufacturing facilities to tender for public contracts. These include boilers, insulation systems, metal cutting machines as well as electrical products and systems. Although domestic companies reporting these practices note that they are shielded from competition in the local market, their costs are increased, with consequences for export prices. |

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| **Shipbuilding** | |
| Tariffs | Average tariffs in the shipbuilding industry (11,1% in January 2000) are substantially higher than the average rate of 7,1% for all products. Certain dredgers and most fishing vessels are subject to a 25% tariff rate. |
| Tariff Predictability | Tariffs on most ships and boats are unbound |
| Import Prohibitions | The Canada Shipping Act reserves coastal trade for Canadian ships, including the transportation of cargo and passengers as well as all other commercial marine activities in Canadian waters. Nevertheless, Canadian legislation provides for the temporary importation of foreign ships which may be granted a coastal trade license for a specific activity and for a specific period of time, if no suitable Canadian ship is available.<br><br>Import of foreign dredgers for coastal trade is forbidden. Part V of the Canada Shipping Act prohibits non-British ships from engaging in domestic trade. Temporary waivers are allowed to foreign vessels |
| Gov’t Procurement | In 1989, about 90% of new construction in Canadian yards was initiated by government procurement. Two of the key shipyards are fully or partially owned by provincial governments, and one is a federal Crown corporation. Provincial governments direct public work to their respective shipyards. Canada requires domestic manufacturers to be given "full and fair opportunity" to supply goods and services for offshore oil and natural gas exploration and production.<br><br>In general, it is federal government policy to purchase ships from Canadian sources. The WTO Agreement on Government Procurement does not cover shipbuilding |
| **Textiles & Leather** | |
| Tariffs | Canada applies some high tariffs to textiles and clothes, in particular up to 16 % for wool and synthetic fibres, and from 17.5 % to 21 % for clothing. Consolidated rates reduced up to 2004 reach 18 %, still a high figure |
| Registration, Documentation, Customs Procedures | In order to claim NAFTA origin a "fibre forward" rule is applied. In practice this means that garments must be made from US home-grown cotton, domestically produced wool or home-made synthetic fibres. Prior to NAFTA, European exporters of fabric had a large market in Canada for processing garments which were subsequently exported into the US. With the introduction of new rules this trade has effectively ceased. Basic origin rules are set out in the NAFTA treaty itself. However, there is an administrative procedure whereby limited derogations can be granted in certain cases. EC exporters have already won a few concessions, mainly with the active support of the Canadian administration |

| Agriculture & Fisheries | |
|---|---|
| Tariffs | Tariff averaged rates on agricultural and food products have dramatically increased as a result of the tariffication of previous import quotas. The average tariff rate is now 6% for agricultural products, but 30.1% for food and beverages |
| Tariff quotas | Tariff quotas remain the main instrument of import protection for dairy products, eggs, turkeys, chicken and products thereof, and to a lesser extent beef, wheat and barley, and their products. The out-of-quota tariff rate is generally prohibitive and may act as a de facto quantitative restriction. For some products, tariff preferences in both out-of-quota and in-quota treatment seem to be a determining factor in the sourcing of imports. In the cases of bovine meat and wheat, for example, duty-free out-of-quota rates on imports from NAFTA countries compare with MFN tariff rates of 28% and 50%, respectively. Pork imported from the European Union in excess of 2,970 metric tonnes has been subject to a 100% tariff since 1999, in retaliation for EC ban on Canadian exports of beef produced using growth hormones |
| Import Prohibitions | Imports of fresh fruit and vegetables without a pre-arranged buyer are prohibited |
| Import Licensing | International and inter-provincial trade of bulk horticultural products is restricted. Importers may request waivers, but Canadian authorities will deny such requests if an equivalent local product is available |
| State Trading Enterprises | The Canadian Dairy Commission has a monopoly on the import of butter. Butter imports have a 2% market share. |
| | Provincial monopoly control via provincial liquor boards (although the PLB in Alberta is partially privatised) over the sale of intoxicating liquor, and over the importation, sending, taking or transportation of such liquor into the provinces. National treatment, transparency, price discrimination, arbitrary market access, access to points of sale, ad valorem mark up and taxes, onerous transactions costs and bureaucratic requirements |
| Sanitary & Phytosanitry Barriers/ Technical Barriers | Imports of animals, food and most other plant or animal products imported into Canada are subject to certification and inspection requirements under sanitary and phytosanitary regulations. These restrictions also apply to inter-provincial trade. |
| | Labelling obligations for certain Provinces differ from others |
| | All fruit and vegetables must comply with packaging requirements, unless a bulk import authorisation is provided |
| | Provincial inspection requirements may also impede international trade. Inspection requirements limit the movement of milk and meat products across provinces |
| | There are also inconsistencies with regard to federal and provincial animal health inspection standards for processing plants |

| Agriculture & Fisheries continued1 | |
|---|---|
| Sanitary & Phytosanitry Barriers/ Technical Barriers | Since 1998 Canada has made 40 notifications to the WTO Committee on Sanitary and Phytosanitary (SPS) Measures. Most of these notifications described amendments made to the Food and Drug Regulations establishing new maximum residue levels for various chemicals contained in edible fruit and vegetables |
| | Import controls relating to Transmittable Spongiform Encephalopathy (TSE) and Bovine Spongiform Encephalopathy (BSE) include import prohibitions on live animals (bovine, sheep, and goats), meat and meat products from countries that have confirmed cases of TSE in native animals in the preceding seven years. Importation from any other country requires a full risk assessment. Currently, Canada allows imports of bovines from Australia, Mexico, New Zealand, and the United States |
| | European exporters of seafood, canned in aluminium containers, are facing severe import restrictions into Canada because of the application of Canadian rules regulating container integrity and seaming. European exporters are using aluminium containers (the main type) for exporting canned seafood. As aluminium is much softer than metal, it is a much more flexible and sensitive material. Even if the container integrity of cans is assured by using aluminium and the quality of aluminium cans is high, using metal enables the seafood producer to press the cans much harder in the closing process than when using aluminium. When aluminium cans are checked by the CFIA on the same level of tightness as the metal cans, they break and fail to pass the container integrity evaluation. The producer of canned seafood that fails to pass the inspection is recorded in the CFIA's import alert list, which is a black listing that makes exports to Canada virtually impossible. Once registered on the alert list, the producer will have to pass a completely clean inspection for the next four (4) consecutive shipments, where 1250 samples will be drawn from each shipment |
| Local Content Schemes | Licensed wine manufacturers in Ontario may sell wine containing imported grapes only if they buy an amount of Ontario grapes determined by the Ontario Wine Council. This leads to a local content obligation of 25%. |
| Trade Meansures not in Conformity with WTO Rules | On 6 November 1995, Canada imposed a countervailing duty of ECU 50.79 per 100 Kg on refined sugar imported from EU. This anti-subsidy measure has been extended in November 2000 for another 5 years, until 2 November 2005. Besides there are antidumping duties against imports of the same subject goods from Denmark, Germany, the Netherlands and United Kingdom |
| | On 7 August 1984 Canada imposed provisional safeguard measures in the form of countervailing duties (CVDs) on imports of certain canned ham and certain canned pork-based luncheon meat exported from Denmark and the Netherlands. in respect of which a subsidy has been paid directly or indirectly by the European Economic Community. The rates of CVDs were equal to the amount of European subsidies On 20 March 2000, Canada Customs decided to continue the CVDs imposed on subsidised canned ham and to rescind the CVDs respecting subsidised canned pork-based luncheon meat. The CVD on canned ham remains equal to the amount of European subsidy |

| Agriculture & Fisheries continued2 | |
|---|---|
| Foreign Direct Investment Limitations | Specific restrictions on inward direct investment exist in the fishery sector. Only Canadians or Canadian-controlled corporations are permitted to obtain the required fishing licences. The Canadian Corporations Act stipulates that resident Canadians must constitute a majority of directors for such companies to be defined as Canadian. Canadian fish processing companies which have more than 49% foreign ownership are not permitted to hold commercial fishing licences |
| | Some Provinces may also have restrictions on foreign ownership of agricultural land |
| **Other** | |
| Tariffs | Custom duties imposed on certain protective equipment for ice hockey remain high after the introduction of the 1998 Custom Tariff by Canada. Safety headgear, shin-guards and elbow or shoulder pads, and ice skates are subject to tariff rates of 8,5%, 15,5% and `8%, respectively. Representatives of European exporters consider that the high tariffs applied to these items constitute a trade barrier |
| **TRADE IN SERVICES** | |
| **Banking** | |
| Market Access | The new foreign bank branching legislation and its related regulations came into force in June 1999. Before June 1999, foreign bank branching was not allowed, putting foreign banks at a disadvantage compared with their Canadian competitors. The new regime creates opportunities for foreign banks entering the Canadian market, mainly for commercial banking; however, it appears to provide only modest additional scope for retail banking, notably because of the restrictions on the ability of foreign bank branches to take deposits. Since 1999, 16 applications have been made to open foreign bank branches. |
| **Insurance** | |
| Market Access/Establishment | Foreign insurance companies may establish as either a subsidiary or branch. Authorization of foreign insurers may be subject to consideration of the value of the market entrant to Canada, as may the acquisition of control of an existing Canadian enterprise by a foreigner. Notification of Investment Canada is required to establish a new insurance business and approval is necessary for larger acquisitions. The 10% rule applies to the acquisition by non-residents of shares of a Canadian controlled life insurance company. This rule does not apply to federal companies under foreign control. US investors have been exempted from this rule under the terms of the US-Canada FTA |
| | Foreign investments may be subject to provincial laws. In Prince Edward Island, only residents or corporations established in the province may obtain licences as Insurance agents. In Quebec, non-residents may not acquire more than 30% of the voting shares of a Quebec-chartered insurance company without ministerial approval. Mandatory motor vehicle insurance is provided by public monopoly in Quebec, Saskatchewan and British Columbia |

| Insurance continued | |
|---|---|
| Market Access/Establishment | Foreign insurance companies may establish as either a subsidiary or branch. Authorization of foreign insurers may be subject to consideration of the value of the market entrant to Canada, as may the acquisition of control of an existing Canadian enterprise by a foreigner. Notification of Investment Canada is required to establish a new insurance business and approval is necessary for larger acquisitions. The 10% rule applies to the acquisition by non-residents of shares of a Canadian controlled life insurance company. This rule does not apply to federal companies under foreign control. US investors have been exempted from this rule under the terms of the US-Canada FTA |
| | Foreign investments may be subject to provincial laws. In Prince Edward Island, only residents or corporations established in the province may obtain licences as Insurance agents. In Quebec, non-residents may not acquire more than 30% of the voting shares of a Quebec-chartered insurance company without ministerial approval. Mandatory motor vehicle insurance is provided by public monopoly in Quebec, Saskatchewan and British Columbia |
| | A foreign insurance company wishing to register in Canada must have assets of at least $200 million, with a minimum capital and surplus margin of between 5% and 10% of liabilities. Furthermore, a foreign insurance company wishing to insure risk in Canada must maintain assets vested in trust in a Canadian financial institution. |
| Activities | Foreign insurance companies are subject to certain measures affecting their operations. For instance, registration in Canada requires that the parent company must have $200 million worth of assets in its home country, in addition to the requirements common to Canadian companies. Furthermore, a foreign insurance company wishing to insure risk in Canada must maintain assets vested in trust in a Canadian financial institution. Initially, a foreign insurance company is expected to vest in Canada assets that would cover the projected capital requirements for a period of three to five years |
| **Securities** | |
| Technical Barriers | There are 5 stock exchanges in Canada, the three largest are in Toronto, Montreal and Vancouver and there are smaller ones in Alberta and Winnipeg. All are private operations regulated at provincial level. Securities firms are also regulated provincially. This means that 10 different sets of regulations govern their capital requirements, permitted activities and investments. However, since 1988 the provincial ministers responsible for financial institutions have been harmonising the regulations on the inter-provincial activities of financial institutions and a large body of legislation and policies are applied uniformly across Canada. |
| Foreign Direct Investment Limiations | Foreign ownership is limited to 10% individually and 25% collectively of provincially regulated trust and loan companies and securities firms in several provinces. |

**The Canadian Perspective - EU’s’s Barriers to Trade**

Priorities:
seek the elimination of export subsidies and the reduction of production-distorting domestic support through the WTO agriculture negotiations;

continue discussions toward agreements that will improve market access for Canadian wine and spirits;

complete the implementation of the 1998 Canada-EU MRA by finalizing the confidence building phase;

encourage professional associations in Canada and the European Union to work toward agreements concerning the mutual recognition of qualifications; and

continue cooperation with the European Union in the field of e-commerce pursuant to the agreed work plan.

A number of barriers to trade exist in the European Union that are of concern to Canada, particularly in the agriculture and natural resource sectors. In the wake of past food-safety scandals in the European Union, Commission and Member State positions on consumer health and safety issues have grown more cautious, and factors other than scientific considerations appear to be growing in influence.

New multilateral trade negotiations will offer the best opportunity to improve Canada's market access on a wide range of industrial and agricultural goods. Bilateral liberalization efforts under ECTI will also make a contribution.

# Table
# Canada's 'Wish List' in its Trade with Europe – Goods, Services, Investment[130], by Sector or Policy Area

| **TRADE IN GOODS** | |
|---|---|
| *Sector* | *Barrier* |
| **Agriculture, Food & Fisheries** | |
| Agriculture | 2000 EU Common Agricultural Policy reform only made modest reductions to agricultural price supports while still allowing direct production-linked subsidies to remain. Access to the EU market will still be restricted for most Canadian agricultural goods and distortion of 3rd country markets will continue. Canada will pursue the reduction of market-distorting domestic support and the elimination of all export subsidies through multilateral negotiations on agriculture, which commenced in 2000. |
| Genetically Modified Canola | The European Union has yet to approve all of Canada's genetically modified (GM) canolas currently in production, and thus Canada is unable to export canola to the European Union. Canada's position is that there are no health, food safety or environmental reasons why GM canolas under commercial cultivation in Canada should not be approved for the EU market. Revised EU legislation for GMO approvals (EU 90/220) are more onerous than the previous directive, but as of February 14, 2001 Member States have 18 months to pass into national law. Thus, at a minimum, the EU GMO approval regime will remain blocked until the fall of 2002. Canada continues to express its concerns to the European Union at the highest levels regarding this market access barrier for genetically-modified canola varieties currently cultivated in Canada. |
| Fisheries | Canadian exporters of fish, shrimp and seafood products continue to be disadvantaged by high EU tariffs. The EU groundfish tariffs on many items of interest to Canada fall within the range of 12 percent to 23 percent. Coldwater shrimp exports are faced with tariff rates of up to 20 percent, depending on the product form. Primarily because of these barriers, Canadian fish and seafood exports to the European Union have declined since the beginning of the decade, stabilizing around the $300 million level. It will continue to be a priority for the Canadian government to seek improved access to the European Union for Canadian fisheries exports. |
| | Canada will continue to actively pursue renewal and improvement of the autonomous TRQ for cooked and peeled shrimp with a reduced duty of 6% if imported for further processing in the EU as an interim measure until we have an opportunity to try to obtain unrestricted duty-free access for this product via WTO negotiations |

[130] DFAIT, Opening Doors to the World: Canada's International Market Access Priorities 2001

| Agriculture, Food & Fisheries continued1 | |
|---|---|
| Wine & Spirits | The European Commission is expected to adopt new legislative changes allowing the import of Canadian icewine. Other issues being discussed include oenological practices and the protection of names. The European Union has also raised concerns related to certain provincial liquor board policies. Objectives on the spirits side include the recognition and protection by the European Union of the term "Canadian whisky". |
| Certification of Organic Food Products | Exports of Canadian organic products to the European Union need to be certified through individual Member States to obtain clearances for certified organic products on a case-by-case basis. Canada is currently not on the EU authorizing list allowing for imports of organic products from EU-listed third countries. Although EU-wide organic legislation regarding certification is being implemented (EN45011/ISO 65), the case-by-case approval system has from time to time created market access difficulties for Canadian organic exports. Canadian exporters will have to continue to meet individual Member State requirements until Canada appears on the EU authroised list |
| | The recently developed "Canadian Standard for Organic Agriculture" [ratified in 1999 by the Standards Council of Canada (SCC)] meets EU or equivalent organic production standards as it is consistend with international standards (ISO 65 standard and Codex alimentarius Canada must also show the EU that it has an accredited certification body for organic agriculture - the Canadian Organic Advisory Board (COAB) is undergoing the accreditation process, expected to be a time-consuming 2-5 years until completion. |
| Beef Hormones | In 1989, the European Union banned the use of growth-promoting hormones in livestock and imposed a ban on the importation of beef produced with growth-promoting hormones. Both Canada and the United States consistently opposed the ban on the grounds that it was not based on scientific evidence and was an unjustified barrier to trade. A WTO panel concluded in 1997 that the EU ban violated the SPS Agreement The European Union was given until May 1999 to implement the WTO rulings, but it failed to do so.<br><br>Due to this failure and the lack of an acceptable interim solution, in 1999, Canada imposed retaliatory tariffs on a list of imports from the European Union, including beef, cucumbers, gherkins and pork. These measures will remain in effect until such time as the EU implements the WTO rulings or offers a satisfactory compensation package on an interim basis pending implementation of the WTO rulings.<br><br>As of March 2001, the European Union has still not implemented the WTO rulings and Canada's retaliation remains in effect. Canada's objective remains open access to the EU market for Canadian beef. For more information, www.dfait-maeci.gc.ca/tna-nac/dispute-e.asp#Hormones |

| Agriculture, Food & Fisheries continued2 | |
|---|---|
| Canada-EU Veterinary Agreement | On December 17, 1998, Canada and the European Union signed a Veterinary Agreement governing trade in live animal products, fish and fish products. The agreement establishes a mechanism for achieving recognition of equivalent sanitary measures between Canada and the European Union aimed at improving bilateral trade. A Joint Management Committee (JMC) has been established to implement the agreement.<br><br>A second meeting of the JMC was held in Halifax in October 2000. There was agreement to continue joint work by developing a list of commodities which reflect shared priorities and for which an agreed approach to equivalency can be undertaken. Agreement was also reached on ways to move ahead to improve the exchange of information and notifications. As future work, it was agreed, as a matter of priority, to establish three technical working groups to focus on audit/verification, information exchange/notification and equivalency. |
| Seed Potatoes | A derogation from EU phytosanitary requirements is required for continued access to the European Union for Canadian seed potatoes. The particular pests of concern are bacterial ring rot (BRR) and potato spindle tuber viroid (PSTV).<br><br>Traditionally, an annual derogation had been granted based on requirements that Canada conduct stringent laboratory testing and certification of disease-free zones in Prince Edward Island and New Brunswick for all exports to the European Union.<br><br>In September 1999, the EU Standing Plant Health Committee approved a three-year derogation for Canadian seed potatoes authorizing Italy, Portugal, Greece, Spain to import Canadian seed potatoes for the next three-year seed-potato marketing season or shipping periods |

| Natural Resouces - Forestry & Related | |
|---|---|
| Forest Certification | In the EU, especially within the United Kingdom, Germany and the Netherlands, market demands for the certification of forest products showing sustainable management is growing. Canadian industry is endeavouring to address this demand, using Canadian-based schemes. However, the EU market prefers other, non-Canadian certification schemes, hence, some form of harmonization will be required should current trends continue and Canadians develop their own scheme. Also, the EU needs to ensure that certification itself is not used as a market access barrier, disadvantaging Canadian product. Raw material specifications based on local conditions or inappropriate criteria are an outstanding barrier. So too are procurement policies adopted by buying groups or public bodies specifying the exclusionary use of one specific certification. Measures requiring mandatory labelling based on non-product-related process and production methods are also a concern. Canada will continue to monitor our access to key markets with a view to ensuring that certification remains a voluntary marketplace activity and that criteria consistent with Canadian forest values are used to evaluate Canadian products. Of note, the Confederation of European Paper Industries (CEPI) has developed a comparative matrix of certification schemes. The International Forest Industry Roundtable (IFIR) has developed a framework for mutual recognition, which focuses on reciprocal arrangements between existing certification schemes to recognize compatible standards and procedures[131]. Additionally, certification and labelling of wood products must be compatible with international trade rules since it may be challenged at the WTO as a technical barrier to trade should unfair distortions in trade occur.[132] |
| Eco-Labelling | The European Commission has an eco-labelling scheme called the "Flower Program". Items covered include a number of paper products (e.g. sanitary papers). The criteria used for the program largely reflect European domestic environmental requirements, values and European-based performance measures. Canada has been excluded from the process of setting criteria and is concerned that the Flower Program has not been developed in a transparent manner and discriminates in favour of EU producers. Canada will closely follow EU developments in this field to ensure that the European Union adheres to the WTO Technical Barriers to Trade Agreement's Code of Good Practice in its eco-labelling programs, particularly provisions dealing with transparency and ensuring fair access of foreign producers to eco-labelling programs. |
| Pinewood Nematode | Since July 1993, the European Union has required that Canadian exports of softwood lumber, except Western Red Cedar, be heat-treated in order to ensure the destruction of the pinewood nematode (PWN). This requirement has effectively eliminated Canadian exports of untreated softwood lumber to the European Union. Canada views this as excessive, given the negligible risk of establishment of pinewood nematode in the European Union as a result of trade in Canadian softwood lumber. Canada has proposed alternative measures to control pinewood nematode, while allowing trade in untreated lumber. The European Union has not accepted Canadian proposals for less trade-restrictive measures. WTO consultations were held in 1998, but the issue remains unresolved. |

[131] 'Certification: Helping Markets Support the World's Forests', International Trade Forum, August 04, 2001 http://www.tradeforum.org/news/fullstory.php/aid/280.html

[132] Ibid.

| **Natural Resouces – Mining and Minerals** | |
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| Bans and Restrictions on Certain Non-Ferrous Metals | The European Commission has proposed a number of directives (on batteries and accumulators; waste management of electrical and electronic equipment; and end-of-life vehicles) that provide for restrictions and an eventual ban on the use of certain substances, including lead, mercury and cadmium. These initiatives would have adverse trade implications for Canada with respect to both the non-ferrous metals in question and the manufactured products making use of them. While Canada shares the Commission's commitment to the protection of health and the environment, it continues to question whether such product bans are proportionate to any attendant risks and is concerned that such measures may be more trade restrictive than necessary to achieve their intended objectives. However, no information to date has been offered. In the absence of comprehensive and scientifically sound risk assessments, Canada considers that the Commission is acting prematurely. Canada will continue to monitor EU discussions and convey its concerns to the Commission, the Parliament and the Member States at the various stages of the EU decision making process |
| Aluminum | Efforts to achieve reduced tariffs on aluminum ingot and other non-ferrous metals remain a priority for Canada. In conjunction with both Canadian industry and EU consumers of aluminum, Canada hopes to suspend the 6% tariff |
| Chrysotile Asbestos | In the European Union, eleven Member States (Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Sweden and the United Kingdom) have severely restricted or banned the use of chrysotile asbestos and an EU-wide total ban on asbestos will take effect January 2005. The Canadian government, in partnership with the Government of Quebec, the asbestos industry, labour unions and the affected communities, seeks to maintain market access for chrysotile asbestos products to the European Union, despite a WTO ruling in 2000 that upheld the ban’s conformity with WTO agreements. |
| **OTHER AREAS** | |
| Professional Services | The development of mutual recognition agreements (MRAs) between our respective professional services providers, particularly, architecture and engineering, was initiated between European Union and Canada in 2000. These professions have significant export interest and experience in each others markets and are signatories to existing MRAs. Both sides have agreed to exchange information regarding their respective regulatory regimes on matters such as accreditation, licensing and qualification requirements and procedures. This is a necessary first step to fully understand the commonalities and differences of their regimes. It is expected that the discussions will be on-going through 2001. Because these agreements are between respective professional associations, and hence are not intergovernmental in nature, the government's role is to facilitate and encourage the development of MRAs. |

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| Government Procurement | Canadian suppliers still do not have access to EU markets in a number of sectors, including telecommunications equipment and services, transportation equipment and electric utilities. Particular barriers that serve to restrict access include standards, certification, qualification and local-content requirements. Canada is addressing these issues with the European Union in the WTO Government Procurement Working Group to further reduce or eliminate tariff and non-tariff barriers |
| Telecommunications | Canadian companies have benefited from the ongoing liberalisation of EU telecommunications regulatory frameworks however, some problems persist. In Germany, high up-front licensing costs, under review by German courts, are a concern for Canadian companies, and efforts by Deutsche Telekom to have the Berlin market receive special consideration for the setting of interconnection rates would, if successful, create an unwelcome precedent. |
| European Free Trade Association (EFTA) | The launch of free trade negotiations with the EFTA (Iceland, Norway, Switzerland and Liechtenstein) in 1998 is expected to focus primarily on industrial tariff elimination, with some liberalization for agriculture and new co-operation in trade facilitation and competition policy. It will not include new commitments in the areas of services, investment or intellectual property. Agreement has been reached on most issues. The issue of the treatment of ships and offshore vessels and platforms used in oil and gas production has not been yet resolved. |

EU's priorities & strategies
The EU's market access strategy

In the mid-1990s, the EU added flanking policies to the existing trade policy. The market access strategy provides for mechanisms and instruments to act more forcefully against trade barriers elsewhere. At the multilateral level, the EU aims at strict compliance by its trading partners with WTO rules, at reductions of barriers to EU exports in the context of accessions of third countries to the WTO, and at shaping its strategy for the next round of multilateral negotiations, especially in the fields of agriculture and services.[133]

What could be more worrying in this context are trade developments between eastern European countries and the European Union in recent years. The lifting of the iron curtain and liberalisation in these countries led to a strong reorientation in trade flows. The share of trade among the eastern European countries collapsed until 1994 and recovered afterwards, while that with the EU soared, both for exports and for imports (Figure 9). These two changes were accompanied by an equally important collapse in trade with MFN countries. While a sharp fall in trade with the former Soviet Union countries was to be expected, trade developments with the largest and/or most dynamic economies in the world (United States, Japan and Pacific Asia) were subdued. With the economic recovery of the eastern European countries, fairly rapid output growth could have ensured that trade with the rest of the world would also grow substantially, despite the preferential agreement with the EU. In the absence of data on apparent consumption, trade intensity and propensity indices can shed light on this question. The trade intensity index measures whether a country's trade with a certain region is higher or lower than its importance in world trade, while the propensity to export index measures to what extent there is still a rise in their propensity to export extra-regionally. Based on the developments of these two measures, Messerlin (1996) concludes that there is a risk that trade diversion has occurred. It should be stressed, on the other hand, that these trade developments could also partly reflect geographic proximity, with trade further away developing more slowly, and that is not easy to determine comparative advantage for countries undergoing swift transition.

Priorities in the Community's future trade agenda are:
- to actively pursue multilateral liberalisation;
- to deepen integration with the eastern European and Mediterranean countries; and
- to strengthen co-operation on trade-related issues with major trading partners.

Trade and Competition
Since the foundation of the Community, a strong common competition policy was seen as important to ensure free and undistorted competition, as anti-competitive behaviour and subsidies can distort trade in the same way as border measures do. Outside the EU, too, co-operation on competition policy matters has increasingly been seen as necessary to prevent anti-competitive practices which could hurt EU companies. Therefore, the EU has established competition policy co-operation agreements with a number of major trading partners.

[133] Peter Hoeller, Nathalie Girouard and Alessandra Colecchia , The European Union's Trade Policies and their Economic Effects: Economics Dept Working Papters No. 194, OECD, May 1998

The EU bilateral Agreement with the United States is another example of competition policy co-operation, although co-operation is still in its infancy. The main purpose of this agreement is to promote co-ordination in the application of competition laws.[134] In July 1995, the Commission published a report by a group of experts (the "van Miert Report"), which draws up proposals for strengthening international co-operation between the EU and its trading partners in the field of competition policy in the years ahead. It considered that a strengthened framework for co-operation between competition authorities and for an exchange of information is essential for achieving effective enforcement of competition rules.

Standardization and certification

114. The Community's trade objectives regarding standards and conformity assessment are to eliminate or reduce TBTs in third countries; and encourage those countries to adopt standards based on, or compatible with, international and EU practices. The strategy pursued is four-fold and relies simultaneously on: the WTO multilateral framework complemented with bilateral initiatives; the negotiation of mutual recognition agreements (MRAs); technical assistance programmes to developing countries to promote the adoption of international or European standards; and regulatory co-operation, whether multilateral, plurilateral, or bilateral, on some key industrial sectors such as vehicles, pharmaceuticals, medical equipment, foodstuffs and chemicals.

European initiatives concerning MRAs are based on three main conditions: the competence of the third country technical bodies, limitation of recognition to the activity of the bodies designated, and achieving a balanced situation with regard to the advantages derived by both parties for the products concerned (WTO, 1995). Hence MRAs do not presuppose harmonization of each party's substantive requirements or recognition of their equivalence (as with the EU's internal market). They require, though, full confidence in each side's certification process. In the case of the EEA, the EC-Turkey customs union, and arrangements with central European countries, mutual recognition will be based on common regulations, because the ultimate goal is full integration. In most other cases, however, MRAs will operate where the parties' underlying rules remain different. [135]

Trade and investment

The European Commission and its Member States are actively participating in the negotiations of the Multilateral Investment Agreement (MAI) which were launched in 1995 at the OECD. The purpose of the negotiations is the establishment of a broad multilateral framework for international investment providing for the liberalisation of investment regimes, strong investor protection and effective dispute settlement procedures. The MAI is to be a free-standing international treaty open to OECD as well as non-OECD countries. Most elements of the treaty are now in place, but certain topics remain sensitive issues. These concern, for instance, measures taken by sub-national levels of government, extra-territoriality, the scope of exceptions (e.g. with respect to culture, subsidies...), and labour and environment. [136]

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[134] It contains a "positive comity" clause which gives to either party the right to request the other to act on the basis of its own powers, and to investigate activities which adversely affect important interests of the first party. The notified party is free to decide whether to undertake enforcement activities, but if it does so, it is obliged to advise the first Party of the outcome.

[135] Peter Hoeller, Nathalie Girouard and Alessandra Colecchia , The European Union's Trade Policies and their Economic Effects: Economics Dept Working Papters No. 194, OECD, May 1998

Enlargement

The first step towards future EU enlargement involved the negotiation of Europe Agreements (EAs). They form the institutional framework for trade integration between the CEECs and the EU and govern economic aid and political co-operation between the EU and the applicant countries. EAs have been concluded between the EU and Poland, Hungary, the Czech Republic, Slovak Republic, Romania, Bulgaria, Lithuania, Latvia and Estonia. Slovenia became the tenth country to sign in June 1996. The EAs are fully implemented only after ratification by the national parliaments and the European parliament.

The trade provisions of the EAs, called the Interim Agreements
84
(IA), have however been implemented in
each of the CEECs (Table 16).

124. The main objectives of these agreements are the creation of bilateral free trade areas for non-agricultural products within a period of 10 years, close compatibility of economic laws and practice, and the development of a framework for political dialogue and economic co-operation. The EAs include specific provisions for adjusting state monopolies to EU competition rules; for adopting EU legislation on free movement of capital; for liberalising services; and for ensuring compliance with international agreements such as the WTO and conventions on intellectual property and the right of establishment. The basic liberalisation principles embodied in the EAs are preferential treatment, asymmetric reductions in tariffs and the respect of rules of origin. The EU committed itself to eliminate all quotas and levies on industrial goods imported from the CEECs with the exception of steel and textiles as soon as the IAs were in force (in 1992 for the Czech Republic, Hungary and Poland). The period of liberalisation for signatory CEECs however, is longer, with customs duties on imports from the EU to be progressively reduced to zero by the end of 1997 and duties on the most sensitive products
85
to be abolished by the
year 2002. Trade liberalisation concerned only products originating either in the EU or in CEEC's until 1997, since when a European-wide diagonal rule of origin system was introduced (see above).

Euro-Mediterranean relationships

The Euro-Mediterranean partnership was formally established at a conference in Barcelona in November 1995. At this meeting, representatives of the EU Member States and the governments of Algeria, Cyprus, Egypt, Israel, Lebanon, Malta,
89
Morocco, Syria, Tunisia, Turkey and the Palestinian
Territories unanimously adopted the Barcelona Declaration. The declaration has three principal

[136] Peter Hoeller, Nathalie Girouard and Alessandra Colecchia , The European Union's Trade Policies and their Economic Effects: Economics Dept Working Papters No. 194, OECD, May 1998

dimensions: a political and security partnership, an economic and financial partnership, and partnership in
social, cultural and human affairs. The second section of the declaration supports the creation of a free trade area by 2010 through the completion of the Euro-Mediterranean Association agreements (EMAs).
90
At the bilateral level, the EU has signed EMAs with Tunisia, Israel and Morocco. Similar agreements are
still being negotiated with Egypt, Jordan, Lebanon and the Palestinian Authority. As with some of the eastern European countries, accession negotiations will soon start with Cyprus and a customs union has come into force between the EU and Turkey.
136. The main features of the EMAs are the following (Table 21):
- progressive elimination of all tariffs on industrial goods over 12 years. However, most manufactured exports from these countries already receive preferential customs treatment both by virtue of the GSP and of the existing bilateral agreements, whereas the current heavy protection against manufactured imports from the EU will have to be dismantled;
gradual and limited trade liberalisation for agricultural products with substantive discussions only by the year 2000. Mediterranean countries' agricultural exports to the EU will not receive more favourable treatment in the short run, with some exceptions where additional preferences are envisaged;
- concerning services, EMAs simply refer to the obligations of each party under the GATS. Mediterranean countries made very limited commitments under the GATS, subjecting some 6 per cent of their service sectors to national treatment and market access principles, as compared with 26 per cent for the EU;
91
- measures to liberalise the right of establishment do not go beyond WTO commitments except for Lebanon;
- the EMAs envisage the adoption and application of the basic EU competition rules, a progressive elimination of non-tariff barriers, and harmonization of safeguard and anti-dumping provisions within five years.
92
During the transition period WTO rules with
respect to countervailing duties and anti-dumping legislation will remain applicable. State aid for disadvantaged regions would have to be compatible with EU competition rules. EMAs generally refer to commitments of the Agreement on Trade Related Aspects of Intellectual Property rights (TRIPs). For non-WTO members, the legal framework would have to comply with WTO requirements both in terms of scope and enforcement with a transition period envisaged. Even though in principle Mediterranean countries already have duty-free access to EU markets for manufactured goods, in practice rules of origin may be such as to require the use of EU inputs in order to benefit from duty -free treatment.[137]
93

Concerning trade in goods and services, liberalisation between the United States and the European Union will continue on an MFN basis and the NTA does not provide for the creation of a free trade area. Close co-operation in a large number of areas, which are not yet well-defined under WTO

[137] Peter Hoeller, Nathalie Girouard and Alessandra Colecchia , The European Union's Trade Policies and their Economic Effects: Economics Dept Working Papters No. 194, OECD, May 1998

rules, could help reduce trade frictions, and joint initiatives could boost liberalisation in the multilateral context. Recently the Commission launched another initiative to broaden the trade agenda, by proposing to eliminate all industrial tariffs by 2010 as long as a critical mass of other trading partners also agree to do so; to create a free trade area in services; and to further liberalise investment, public procurement and intellectual property.[138]

[138] Peter Hoeller, Nathalie Girouard and Alessandra Colecchia , The European Union's Trade Policies and their Economic Effects: Economics Dept Working Papters No. 194, OECD, May 1998

Europe's FTA's

South Africa[139]

For a number of products indicated in this list, tariff elimination will start four years after the date of entry into force of this Agreement. Tariff elimination of these products will take place in three equal annual reductions, to be concluded six years after the date of entry into force of the Agreement.
For a certain number of steel products indicated in this list, tariff reduction will be realised on a MFN basis, to arrive at a zero duty in the year 2004.
5. Customs duties applicable on import into the Community of products originating in South Africa listed in Annex II, list 4 shall be abolished within a maximum of 10 years after the date of entry into force of the Agreement.
For motor-car components indicated in this list, the applied tariff will be reduced by 50 % as from the entry into force of the Agreement.
The precise Community basic duties and tariff elimination schedule for the products on this list will be established in the second six months of the year 2000, after both parties have examined the prospects for a further liberalisation of South African imports of automotive products from the Community mentioned in Annex III, lists 5 and 6, in the light of, inter alia, the outcome of the South African motor industry development programme review.
6. Customs duties applicable on import into the Community of products originating in South Africa listed in Annex II, list 5 shall be reviewed in the fifth year of this Agreement in view of a possible elimination of tariffs

Tariff elimination by South Africa
1. Customs duties applicable on import into South Africa of industrial products originating in the Community other than those listed in Annex III shall be abolished upon the entry into force of this Agreement.
2. Customs duties applicable on import into South Africa of products originating in the Community listed in Annex III, list 1 shall be progressively abolished in accordance with the following schedule:
on the date of entry into force of this Agreement each duty shall be reduced to 75 % of the basic duty;
one year after the date of entry into force of this Agreement each duty shall be reduced to 50 % of the basic duty;
two years after the date of entry into force of this Agreement each duty shall be reduced to 25 % of the basic duty;
three years after the date of entry into force of this Agreement the remaining duties shall be abolished.
3. Customs duties applicable on import into South Africa of products originating in the Community listed in Annex III, list 2 shall be progressively abolished in accordance with the following schedule:
three years after the date of entry into force of this Agreement each duty shall be reduced to 67 % of the basic duty;
four years after the date of entry into force of this Agreement each duty shall be reduced to 33 % of the basic duty;
five years after the date of entry into force of this Agreement the remaining duties shall be abolished.

[139]European Community, Bilateral Relations, http://europa.eu.int/eur-lex/en/lif/dat/1999/en_299A1204_02.html

4. Customs duties applicable on import into South Africa of products originating in the Community listed in Annex III, list 3 shall be progressively abolished in accordance with the following schedule:
three years after the date of entry into force of this Agreement each duty shall be reduced to 90 % of the basic duty;
four years after the date of entry into force of this Agreement each duty shall be reduced to 80 % of the basic duty;
five years after the date of entry into force of this Agreement each duty shall be reduced to 70 % of the basic duty;
six years after the date of entry into force of this Agreement each duty shall be reduced to 60 % of the basic duty;
seven years after the date of entry into force of this Agreement each duty shall be reduced to 50 % of the basic duty;
eight years after the date of entry into force of this Agreement each duty shall be reduced to 40 % of the basic duty;
nine years after the date of entry into force of this Agreement each duty shall be reduced to 30 % of the basic duty;
10 years after the date of entry into force of this Agreement each duty shall be reduced to 20 % of the basic duty;
11 years after the date of entry into force of this Agreement each duty shall be reduced to 10 % of the basic duty;
12 years after the date of entry into force of this Agreement the remaining duties shall be abolished.
5. Customs duties applicable on import into South Africa of products originating in the Community listed in Annex III, list 4 shall be progressively abolished in accordance with the following schedule:
five years after the date of entry into force of this Agreement each duty shall be reduced to 88 % of the basic duty;
six years after the date of entry into force of this Agreement each duty shall be reduced to 75 % of the basic duty;
seven years after the date of entry into force of this Agreement each duty shall be reduced to 63 % of the basic duty;
eight years after the date of entry into force of this Agreement each duty shall be reduced to 50 % of the basic duty;
nine years after the date of entry into force of this Agreement each duty shall be reduced to 38 % of the basic duty;
10 years after the date of entry into force of this Agreement each duty shall be reduced to 25 % of the basic duty;
11 years after the date of entry into force of this Agreement each duty shall be reduced to 13 % of the basic duty;
12 years after the date of entry into force of this Agreement the remaining duties shall be abolished.
6. Customs duties applicable on import into South Africa of products originating in the Community listed in Annex III, list 5 shall be progressively reduced according to the schedule included in that Annex.
7. Customs duties applicable on import into South Africa of products originating in the Community listed in Annex III, list 6 shall be periodically reviewed in the course of the operation of the Agreement in view of the further liberalisation of trade.
South Africa will inform the Community about the outcome of the South African motor industry development programme review. It will present proposals for a further liberalisation of South African

imports of automotive products from the Community mentioned in Annex III, lists 5 and 6. The Parties will jointly examine these proposals in the second six months of the year 2000.

EU-MERCOSUR relations and negotiations.

Negotiations between the EU and Mercosur (comprising Brazil, Argentina, Paraguay and Uruguay) began in June 2000, with a first phase that was initially dedicated to bringing down non-tariff trade barriers. Based on the 1995 Interregional Framework Co-operation Agreement, the ultimate objective of this association is to achieve a greater level of political and economic co-operation and integration within the Mercosur group itself, and with the EU. Given that Mercosur functions on the basis of 100% intergovernmental structure, and that it aims to achieve very similar objectives to the EU in terms of the creation of a common market, it is essential that the EU-Mercosur relationship reinforces the process of regional integration within the Mercosur. From the EU's point of view, the agreement therefore looks to support the development and strengthening of common institutions between the Party States of Mercosur, and to liberalise all trade in goods and services between itself and Mercosur, within a framework laid down by the WTO.
Lamy visits Argentina, Brazil, and Chile to strengthen EU trade links with region (27 February - 4 March)

With respect to agriculture, co-operation between the two parties looks to promote mutual trade in agricultural products, increasing the compatibility of legislation to prevent the formation of trade barriers. It also looks to implement certain environmental measures in order to promote an agricultural model that is truly multifunctional. With consumer protection and food safety high on the Commission's agenda, it is of significant importance to align sanitary and phytosanitary measures in the Mercosur states. To this end, an agreement between the EU and the Mercosur group looks to establish and develop mutual information systems for dangerous products, rapid alert systems, and to organise training schemes and technical assistance for their implementation.

Having recently concluded its fifth round of negotiations, there are now a number of major projects underway, financed in part by the EU, to bring the Mercosur countries in line with European standards. Estimates of EU funding directed towards the Mercosur countries and Chile for bilateral regional country co-operation projects for this purpose, amounted to a total €419 million for the period 1994-1998. These projects form part of an ongoing process where considerable progress has already been made. Customs regulations, for example, were harmonised in the first round of negotiations.

In relation to this, the EU is prepared to provide financial support to fund the necessary agrarian reform that must take place in order to bring the member countries in line with European legislative standards. Whilst we have already received project proposals from the relevant parties they are yet to be finalised. It is however expected that reform projects will be concentrated in the poorest rural regions to enable them to engage in both sustainable and environmentally friendly agriculture.

Two further rounds of negotiations have been held this year, in Brussels in March, and more recently a fifth round which took place in Montevideo in July. Having confirmed our intention to intensify the negotiating process at the former, the unilateral presentation of an EC tariff offer at the latter has provided a significant boost. Because of this, the business community in the Mercosur has realised that the EU is seriously interested in the negotiations. For the first time Mercosur representatives have also stated publicly that a new WTO Round is also necessary to address agricultural issues.

However, despite the considerable progress that has been made, a number of questions still stand open. In particular, much discussion remains to be done in relation to tariffs and non tariff issues. One example is on the particular case of wines and spirits where the EU is seeking a framework agreement that conforms with our mandate.

Trade:

Since the two parties entered into political dialogue, trade between them has increased considerably and in 1998, the EU accounted for some 33% of Mercosur's imports and 39% of its exports. The EU offer presented in July 2001 proposes a real liberalisation of a trade volume of €2.2 billion representing around 80% of the current agricultural trade subject to duties. Since €5.8 billion of agricultural imports enters duty free already, the EU offer will cover 90 % of the current agricultural trade.

As has already been mentioned, the two European reform policies aimed to bring Europe's farmers in closer touch with world market prices, and Agenda 2000 in particular was designed to facilitate international trade. To this end, the EU currently imports five times more from Mercosur than the US, making it the group's main trading partner. Trade in goods between EU and Mercosur has risen considerably in recent years, with the total value of trade flows between the two blocks rising from €18.9 billion in 1990 to €42.5 billion in 1998, an increase of almost 125%. Furthermore, in global terms, the EU is the greatest importer of agricultural products in the world, most of which enter at zero or low tariff levels. It is particularly significant then that our import trend has also shown a substantial increase over the last decade - by 250% between 1991 and 1997.

From an EU perspective, there is a negative trade balance with Mercosur for agricultural products of roughly €7.8 billion. It currently provides a market for 1.7% of EU agricultural exports, whilst 16% EU agricultural imports stem from Mercosur. Mercosur's exports to the EU are principally concentrated in a small range of products, in particular soya and its derivatives, oilseeds, coffee, orange juice, tobacco, meat, fruit, peel and nuts. Three groups of products account for half of the EU agricultural exports to the Mercosur, comprised of alcoholic beverages, dairy and other edible animal products, and cocoa derivatives.

The successful launch and conclusion of a comprehensive WTO round of trade negotiations is considered of high importance for the EU's trading possibilities with the Mercosur. It is hoped that a comprehensive next round would result in the lowering of Mercosur's considerable trade barriers, and will create a more stable environment for trading activities.

The Commission wholeheartedly supports the efforts made by Mercosur in the establishment of a common mechanism of dialogue, and it has every intention of participating actively in the process. We will be looking to open up markets and discipline other forms of export assistance, such as the U.S. export credit programmes. We are also seeking to address agricultural trade issues in a way that accounts for rural policy and environmental needs. Standard organisations in Europe and the four Mercosur countries are entering a new era of collaboration which will raise the visibility of the system applied in the EU and promote European enterprises in that part of the world.

The European Commission is currently working towards making these negotiations a success as quickly as possible, with the ultimate objective being to attain a high an ambitious level of political and commercial interaction with our Latin American colleagues. The EU hopes that in view of the successful outcomes of the last round of negotiations, Mercosur will hand over a common tariff offer at the end of this month in order to accelerate the process during the remainder of this year.

EU-Mercosur Association Negotiations 1999-2002

The negotiating directives were only formally approved by the Council on 13 September 1999, based on the political compromise reached by the EU ministers in Luxembourg on 21 June 1999. This compromise instructs the Commission to start negotiations on non-tariff elements immediately, to begin negotiations on tariffs and services on 1 July 2001, and in the meantime to hold a "dialogue" with Mercosur about tariffs, services, agriculture, etc. in the light of the WTO round. Negotiations can only be concluded after the end of the WTO round. Though creating important restraints on its negotiating position, the Commission has nevertheless been able to set up the negotiations on the basis of this mandate and by now is close to starting negotiations on tariff issues and services from 1 July 2001 onwards.

In practice the negotiations started in November 1999 in Brussels, when Mercosur and EU negotiators presented to their ministers a document on the structure/methodology/calendar for the negotiations. The main forum for negotiations is the EU-Mercosur Biregional Negotiations Committee (BNC), to which are linked a Subcommittee on Co-operation (SCC), three Subgroups on specific co-operation areas and three Technical Groups (TG) dealing with trade matters.

First EU-Mercosur cooperation council on 24 November 1999
1st Round

The first round of negotiations in the BNC was held on 6-7 April 2000 in Buenos Aires under the Portuguese Presidency of the EU and the Argentinean Presidency of Mercosur. Negotiators reached conclusions on general principles, political dialogue, co-operation and trade matters. They also formally established the three Technical Groups for trade matters and three subgroups for specific co-operation areas. Some of the general principles established relate to free trade, no exclusion of any sector, conformity with WTO rules, single undertaking principle, conclusion at the earliest possible time, intention to aim at comprehensive negotiations and balanced results, and the reinforcement of consultations on WTO matters. In the trade chapter a set of ambitious objectives was set up that clearly indicated that the future Interregional Association Agreement should not only cover a liberalization of trade in goods and services, but that it will also deal with government procurement, investment, intellectual property rights, competition policies, trade defence instruments and a dispute settlement mechanism. The various areas to be covered by the TGs were identified and a working programme was established until mid-2001. This working programme included exchanges of information, discussions on objectives and modalities on non-tariff measures, ways of addressing non-tariff obstacles to trade and exchanging working texts. After mid-2001 discussions will start of the methodology and schedule for the progressive elimination of tariffs in goods and the liberalization of trade in services.

Conclusions of the First Meeting of the EU - Mercosur biregional negotiations committee (6-7 April 2000)

2nd Round

The second round of negotiations, which took place both at the level of the BNC, as well as in the TGs and one of the co-operation subgroups, was held during 13-16 June 2000 in Brussels and the trade negotiations focussed on three issues: 1) the exchange of information; 2) the identification of non-tariff obstacles; 3) the definition of specific objectives for each area of the negotiation. During the preparatory phase the Commission presented to Mercosur an initial list of non-tariff obstacles and transmitted to Mercosur, following the agreement made in Buenos Aires, a large amount of information (paper, diskettes, CD-ROMs) as regards the EC's legislation and regulations. Mercosur in return also sent a large amount of information to the Commission and presented a draft document containing specific objectives. During the second round the first meetings of the TGs took place, where both sides mainly discussed the information requirements and the various elements of information exchanged. During the course of the next months, in the run up to the third round, these activities continued, while the elements of identifying non-tariff obstacles and specific objectives also underwent further development. Political dialogue negotiations were conducted at the highest level in the BNC itself during this second round, while co-operation negotiations took place for the first time at the level of the subgroups, in particular in the subgroup dealing with Financial & Technical Co-operation. The parties agreed on a draft text for this type of co-operation.

Conclusions of the Second Meeting of the EU-Mercosur biregional negotiations committee (13-16 June 2000)

3rd Round

A third round of negotiations was held between 7-10 November 2000 in Brasilia, under the French Presidency of the EU and the Brazilian Presidency of Mercosur. This round coincided with the visit of Commissioner Patten to Brazil, Argentina and Chile. Commissioner Patten opened this round together with his colleague Luiz Felipe Lampreia, the Brazilian Minister for External Relations. This third round included meetings of the BNC, the TGs and the co-operation subgroup on Economic Co-operation. Trade experts and negotiators could discuss and exchange technical data with their counterparts and much was clarified between the parties. Also agreement was found on a draft text for economic co-operation and on political texts relating to the political dialogue, preamble and institutional framework of the future agreement. It should be noted the atmosphere during the third round between the experts was positive and congenial and this produced both good results and a good psychology to continue discussions.

Conclusions of the Third meeting of the EU-Mercosur biregional negotiations Committee (7-10 November 2000)

Joint press release: Third round of Negotiations in Brasilia (Nov 2000)

EU-Mercosur biregional Negotiations Committee, Speech by Chris Patten

4th Round

A fourth round of negotiations was held between 19-22 March 2001 in Brussels under the Swedish Presidency of the EU and the Paraguayan Presidency of Mercosur. During this round the BNC met again, together with the three TGs, the Subcommittee on Co-operation, the subgroup on Social and Cultural Co-operation and the subgroup on Economic Co-operation. Co-operation discussions focussed on various topics, among others the discussion on how to upgrade the present co-operation under the new agreement. In the political field discussions continued on the institutional framework of the agreement. In the trade area the parties presented for the very first time text proposals/working documents in the field of various non-tariff issues, while the Commission also presented and explained a new initiative as regards Business Facilitation. Preparations were discussed for the future tariff negotiations, while negotiators decided to organize the next round in July 2001.

Conclusions of the Fourth meeting of the EU-Mercosur biregional negotiations committee (19-22 March 2001)

Preparatory Memorandum on BNC-4

Debate on MERCOSUR- Speech by Chris Patten (March 2001)

EU proposes Business Facilitation Initiative with Mercosur & Chile on eve of negotiations (March 2001)

5th Round

A fifth round of negotiations was held in Montevideo from 2-6 July 2001 under the Uruguayan Presidency of Mercosur and the Belgian Presidency of the EU and the tariff and service negotiations started between EU and Mercosur.

At this round of negotiations, the European Union unilaterally presented to Mercosur the tariff offer and negotiation texts for goods, services and government procurement. Mercosur highly appreciated this political gesture by the EU in a delicate moment of the regional integration process and considered it as a strong support of the European Union to the Mercosur process. With respect to the Institutional Framework of the future agreement, discussions took place and the parties exchanged their points of view on the widening and deepening of the contents of the future political dialogue. As to the negotiations on co-operation, the parties agreed on joint texts in the field of customs, competition, statistics and scientific and technological co-operation.

Conclusions of the Fifth meeting of the EU-Mercosur biregional negotiations committee (2-6 July 2001)

V Ronda de negociaciones Union Europea-Mercosur Oferta de negociación de la UE (05/07/01)

Preparatory Memorandum on BNC-5

6th Round

The sixth round of the EU-Mercosur Negotiations was held in Brussels from 29-31 October 2001, and Mercosur presented its tariff offer as well as negotiation texts on services and public procurement. The results of this Round were very positive and the real negotiation process has already started. In spite of the internal difficulties of Mercosur, one could note a strong political commitment of Mercosur, aiming at making a real progress in the negotiations. A substantial progress in the co-operation chapter was made and joint texts in several fields, inter alia, Science, Telecommunications, Energy, Transport were agreed. Furthermore, for the first time, a whole text relating to the Institutional Framework and Political Dialogue Chapter was discussed. Moreover, it was agreed that the 7th Round should take place in Argentine, most likely in the week of 8-12 April 2002. Before this Round, a technical meeting is scheduled for the end of February concerning trade aspects. Naturally, both parties have the political will to make substantial progress in the negotiations for the next Madrid Summit of 17 May 2002. It remains to be seen how the political and the financial crisis of Argentine which is now the Secretariat pro Tempore of Mercosur could influence the present state of EU-Mercosur negotiations.

Conclusions of tht sixth meeting of the EU - Mercosur biregional negotiations committee
Brussels, 29-31 October 2001

4. Mercosur Background Information

The Mercosur was created by Argentina, Brazil, Paraguay and Uruguay in March 1991 with the signing of the Treaty of Asuncion. It originally was set up with the ambitious goal of creating a common market/customs union between the participating countries on the basis of various forms of economic co-operation that had been taking place between Argentina and Brazil since 1986. The Treaty of Ouro Preto of 1994 added much to the institutional structure of Mercosur and initiated a new phase in the relationship between the countries, when they decided to start to implement/realize a common market. A transition phase was set to begin in 1995 and to last until 2006 with a view to constituting the common market. In 1996 association agreements were signed with Chile and Bolivia establishing free trade areas with these countries on the basis of a "4 + 1" formula. During this period Mercosur also created a common mechanism for political consultations, which was formalized in 1998, in which the four countries plus Bolivia and Chile all participate as full members of the so-called "Political Mercosur".

The Treaty of Ouro Preto in 1994 established an institutional structure for Mercosur, which was inspired by the example of the EU, but which did not copy the exact details of the EU model. The main difference compared to the EU is Mercosur's rejection of any notion of supranationality or of autonomous (supranational) central institutions. Thus Mercosur functions on the basis of a 100% intergovernmental structure, notwithstanding the fact that it aims to achieve objectives very similar to the European ideal, i.e. the creation of a common market and possibly later on in the future an economic and monetary union with a common currency.

Although the smaller countries of Mercosur (Uruguay, Paraguay) would prefer a larger degree of supranational governance in Mercosur, this is opposed by the larger members of Mercosur, which up to the present time have stalled or rejected initiatives in this direction. A good example is given by the arbitration mechanism in Mercosur, based on the 1994 Protocol of Brasilia, which does not lead to an easily binding mechanism for solving disputes, at times even necessitating the intervention of the Presidents of the four countries to solve (trade) disputes of a technical character. In this respect the EU strongly differs from Mercosur in its supranational and centralized set-up, with strong central entities such as the Commission and the European Parliament and with impartial arbitration by institutions such as the Court of Justice in Luxembourg.

Israel

The Association agreement

In 1994 the European Council declared that it considers that Israel, on account of its high level of economic development, should enjoy special status in its relation with the European Union on the basis of reciprocity and common interests.

The new Euro-Med Association agreement entered into force on 1st June 2000. It was signed on 20.11.1995 and replaces the old 1975 EC-Israel co-operation agreement. It confirms the free trade regime for industrial products existing since 1989 and provides for reciprocal additional agricultural concessions.

The Association Agreement establishes for the first time an institutional political dialogue between the EU and Israel. This represents a new development in the already very close relations which existed between Israel and the EU. It reflects a common vision of society based on the same value of democracy, respect for human rights and the principles of market economy.

In addition to the political dialogue, the Association Agreement sets out a large number of areas for possible future cooperation. For example, in the field of economic cooperation, the agreement covers areas such as industry, energy, standards, financial services, information infrastructures and telecommunications, transport and tourism. The agreement also opens up possibilities for cooperation in fields such as audiovisual matters and the cultural sphere.

The first Association Council took place in Luxembourg, 13 June 2000. The first Association Committee will take place in Brussels 21 May 2001.

Other bilateral agreements

The 1999 agreement on scientific co-operation. Israel has been associated respectively to the 4th and the 5th Community R&D Framework Programmes, enjoying a status equivalent to that of any other M.S.

Two separate agreements on Public Procurements concluded in 1996;

An agreement on Good Laboratory Practices concluded in 1999.

Since March 2000 Israel has gained "Co-operating State" status in the COST (Research) programme.

Since June 2000 Israel is member of the Eureka (Research) Network.

EEA

The Agreement on the European Economic Area (EEA) extends the Single Market of the EU to three out of the four EFTA countries, namely Norway, Iceland and Liechtenstein. Switzerland, while being a member of EFTA is not a Party to the EEA, having voted against membership in December 1992.

Switzerland maintains and develops its relationship with the EU through broadened bilateral AgreementsIn essence, the EEA Agreement unites the 15 EU member states and the three EFTA EEA states (Iceland, Liechtenstein and Norway) into one single market governed by the same basic rules (Acquis Communautaire). These rules cover the so- called four freedoms (free movement of goods, capital, services and persons) and competition rules. Under the Agreement the EFTA EEA countries are able to contribute to the shaping of this legislation. The EEA Agreement does not cover the EU's Common Agricultural Policy or the Common Fisheries Policy, but contains provisions on various aspects of trade in agricultural and fish products. As the EEA Agreement is not a customs union, trade policy towards third countries remains outside its scope.

In addition to internal market legislation, the Agreement includes so-called "flanking and horizontal policies" intended to strengthen the internal market. These additional fields of co-operation include research and development, statistics, education, social policy, the environment, consumer protection, tourism, small and medium-sized enterprises, culture, information services and audio-visual services. The EFTA EEA countries participate in EC programmes in these fields and have a voice in developing and managing them through participation in their committees.

Veterinary and phytosanitary matters

The original Annex I to the EEA Agreement covered animal health, public health, feedingstuffs, phytosanitary matters and the bulk of legislation on trade in live animals and animal products within the European Economic Area. A review of the Annex was concluded in December 1996 and a revised Annex I was included in the EEA Agreement by EEA Joint Committee Decision 69/98 of 17 July 1998.

The revised annex harmonises EEA EFTA regulations covering various fields such as veterinary border controls, third country trade and animal welfare.

The annex also contains rules on feeding-stuffs and phytosanitary matters. In the area of feedingstuffs, the EEA EFTA regulations are, with a few exceptions, fully harmonised and includes fields such as ingredients in feedingstuffs, methods for analysis and control and undesirable substances and products. In the field of phytosanitary matters, the area of seeds is covered, though not provisions relating to third country relations and border control. Also the field of plant health is not covered by the Agreement.

Harmonised product legislation (Technical Barriers to Trade)

Through the EEA Agreement, some 700 EC product-related acts were initially taken over by the EEA EFTA States and since then, some further 700 EC acts have been incorporated into the Agreement. With a few exceptions, the Agreement ensures that economic operators in all the EEA States (i.e. the 15 EU states plus Iceland, Liechtenstein and Norway) are subject to the same conditions when placing a product on the EEA market.

Annex II of the EEA Agreement includes both Old and New Approach EC legislation. The former lays down detailed specifications to be followed by manu-facturers and other economic operators and covers several areas such as foodstuffs, chemicals, fertilizers, cosmetics and wine. The latter sets broad safety requirements for products while it is left to the European Standards Organisations - the ESOs - (CEN,CENELEC and ETSI) to develop more detailed specifications in the form of European “harmonised standards”. References to such standards are published in the Official Journal of the European Communities. The EFTA States (including Switzerland) have developed close links with the

ESOs and, together with the Commission, co-finance European standardisation work both through direct contributions to the ESOs and through co-financing of technical mandates for standards. For more detailed information on European standardisation and EFTA's participation in this work, please refer to the EFTA Factsheet on European standardisation.

Mutual Recognition Agreements

In the area of harmonised legislation, the European Commission has been concluding Mutual Recognition Agree-ments (MRAs) in relation to conformity assessment with third countries. This enables the third country to test and certify products to EC requirements in a specific product sector (and vice versa) and thus aims at avoiding duplication of testing and certification by the importing country. They have since concluded MRAs with Australia, New Zealand, Canada, the USA, Switzerland, the Czech Republic, Hungary, and Latvia. Talks are well advanced with Japan as well as with other Central European countries (the agreements for the CECs appear as Protocols on European Conformity Assessment (PECAs)).

To ensure that products entering the EEA under MRAs can freely circulate throughout the Single Market, the EEA EFTA States are also in the process of concluding parallel MRAs with the same third countries concerned. This is provided for in Protocol 12 to the EEA Agreement. EEA EFTA MRAs have been concluded with Australia, New Zealand and Canada. The Agreement with Switzerland has been initialled as part of the update of the EFTA Convention. Switzerland has also negotiated its own MRA with the Community, and with Canada. Further-more talks with the USA, the Czech Republic and Hungary remain in progress.[140]

Iceland

Iceland's relations with the EU are mainly governed by the Agreement on the European Economic Area (EEA). The EEA Agreement has been in force since 1.1.1994 and extends the Single Market legislation, with the exception of Agriculture and Fisheries Management, from the 15 EU Member States to Norway, Iceland and Liechtenstein. Relations with Iceland through the EEA co-operation, as well as bilateral relations, are close and generally smooth.

Iceland has an association agreement with the EU concerning the Area of Freedom, Security and Justice, based on their association agreement with the Schengen group. The implementation of the operational parts is foreseen for March 2001

European Free Trade Association (EFTA)

The government announced the launch of free trade negotiations with the EFTA countries on October 9, 1998. The European Free Trade Association (EFTA) comprises Iceland, Norway, Switzerland and Liechtenstein. In 2000, Canada exported $1.3 billion worth of goods and imported goods valued at $5.9 billion from the region. Foreign direct investment from EFTA members into Canada in 1999 stood at $4.6 billion and was concentrated in natural resource-based industries.

[140] EFTA Secretariat, http://secretariat.efta.int/euroeco/freemove/

The free trade agreement is expected to focus primarily on industrial tariff elimination, with some liberalization for agriculture and new co-operation in trade facilitation and competition policy. It will not include new commitments in the areas of services, investment or intellectual property.

Agreement has been reached on most issues. The issue of the treatment of ships and offshore vessels and platforms used in oil and gas production has not been yet resolved[141]

[141] Opening Doors :Canada's market access priorities, 2001

Opportunities for Regulatory Harmonization/Enhanced Cooperation

With the current proliferation of certification schemes, only the very best-informed consumers are able to make a balanced choice between different certificates and labels. Clearly, the choices between the Pan European Forest Certification (PEFC) in Europe, the Sustainable Forestry Initiative (SFI) in North America (mostly American forests), and the longer-established (and globally reaching) Forest Stewardship Council (FSC) are competitive certification programs. Additionally, because of varying resource endowments, ecological zones and economic situations from country to country, it is unlikely that there will ever be one global certification scheme for all. Individual countries are likely to develop their own national certification systems if they cannot choose an existing system.[142]

There are an estimated 25 certification schemes operating worldwide, with around 80 million hectares of forests certified. In the United States, for example, about 22 million hectares have been certified under various sustainable forest management schemes. Several million hectares have been certified in Canada, Finland, Norway and Sweden. The Pan-European Forest Certification (PEFC) Scheme has the largest areas of forests under certification to date — about 32 million hectares, of which 22 million are in Finland — and has created a framework for mutual recognition of national certification schemes. The Forest Stewardship Council (FSC), the pioneer of performance-based forest certification, has approved around 21 million hectares worldwide.[143]

As the number of certification schemes proliferate, producers and consumers will increasingly require a universal means to assess their acceptability, soundness and validity. The need for mutual recognition arrangements is clear, particularly since the danger of discriminatory trade practices between wood products coming from different certification schemes and ecological regions is high. Market access would be greatly simplified for producers and processors of CFP, while consumers would gain greater clarity and trust in the competitive marketplace. Mutual recognition of certification schemes has remained largely unsolved despite recent international efforts toward this end.

[142] 'Certification: Helping Markets Support the World's Forests', International Trade Forum, August 04, 2001 http://www.tradeforum.org/news/fullstory.php/aid/280.html
[143] Ibid.

Appendix

The EU's Trade Agreementss

The single market, largely accomplished in 1993, stands out as the deepest regional integration scheme world-wide, providing for the abolition of non-tariff barriers and for free factor movement. Better EU-wide co-ordination of policies was achieved by the signing of the Maastricht Treaty in 1992 and the Amsterdam Treaty in 1997, the former aiming largely at establishing an Economic and Monetary Union (EMU) and the latter at achieving stronger political integration in a number of areas. The Union widened beyond the six founding members, with the accessions of the United Kingdom, Denmark and Ireland in 1973, Greece in 1981, Portugal and Spain in 1986 and of Austria, Finland and Sweden in 1995. The Treaty of Rome allows other European nations to join if the existing members unanimously agree and the new members undertake the full duties of membership,

With the accession of the United Kingdom, Denmark and Ireland in 1973 a Community-wide policy with respect to the remaining EFTA countries was elaborated and individual free trade agreements for industrial products were signed with the remaining EFTA countries. The outcome of these agreements was the establishment in 1973 of the largest free trade area in the world. Free trade agreements also preceded accession to the EU for Greece and Spain (Table 4). Co-operation with the remaining EFTA countries deepened further in the early 1990s, with the establishment of the "European Economic Area" (EEA), which provided for the implementation of most single market legislation and led to the accessions of Austria, Sweden and Finland in 1995. The EEA applies currently to Norway and Iceland. Finally, a customs union between the EU and Turkey recently came into force.

When the EC formulated its policy towards the ACP countries, it also developed a "Mediterranean policy", covering trade relations with Turkey, the former Yugoslavia, the Maghreb (Algeria, Tunisia and Morocco), the Mashreq countries (Egypt, Jordan, Lebanon, Syria) and Israel. These agreements differed in the treatment of products imported from the EC and in the speed of elimination of trade barriers. Recently, a new initiative concerning the Mediterranean countries outside the EU was taken to speed up co-operation (see below).

Trade relations within Europe changed profoundly with the transition of the former centrally planned economies to market economies. The starting point of deepening trade relations were the "Europe Agreements" with the Czech and Slovak Republic, Hungary and Poland in 1991 and with Bulgaria and Romania in 1993. These treaties recognise the aspirations of these countries to future EU membership and provide for the establishment of free trade agreements in the interim, with certain "sensitive" sectors being covered in protocols. The agreements also include provisions on rules of origin, competition policy, etc. In 1994, the EU signed free trade agreements with the Baltic states, while co-operation with the other former Soviet states is still in its infancy.

The result of the post-war process of regional integration is the creation of different levels of trade liberalisation. The deepest level of integration applies to the EU itself, but most of this extends to the other West European countries through the EEA. A second circle is formed of the central and eastern European countries, as well as those Mediterranean countries with whom reciprocal trade agreements have been concluded. Some of these agreements are a first step towards future accession. A third circle is formed by the non-reciprocal agreements with the North African and ACP countries.

Today, virtually all countries in the world are covered by reciprocal or non-reciprocal contractual concessions with the EU, except the United States, Canada, Japan, Australia and New Zealand.

CANADA EU trade relations[144]

Canada and the EU are important economic partners who share a common outlook and philosophy with regard to international trade. Economic relations between the EU and Canada are characterised by strong two-way trade and investment flows. Trade between Canada and European countries has a long history. Today the completion of the single European market and the introduction of the Euro are offering vast new opportunities for Canadian business. Two-way trade in goods and services between the EU and Canada approached the level of EUR 40 billion (CAD 65 billion) in 1999.
The EU is the most important source and destination for Canadian foreign direct investment after the United States. More than 20 % of Canadian investment abroad is in the EU and, equally, more than 20 % of foreign investment in Canada comes from the EU.

According to Eurostat, in 1999 the trade relationship between Canada and the EU increased 15,8%.In 1999, EU imports from Canada increased by 14,9% to 13.499 million Euro from 11.749 million Euro in 1998. EU exports to Canada increased by 16,5% to 16.558 million Euro from 14.239 M. Euro in 1998.

Background[145]

Relations between Canada and the European Union are managed through the WTO, the 1976 Framework Agreement for Commercial and Economic Co-operation, and the 1990 Declaration on Canada-EC Relations. To enhance these arrangements, Canada and the EU signed in December 1996 a Joint Political Declaration and its Action Plan to, among other things, expand trade and investment relations, increase joint action on foreign policy and security, and enhance co-operation on global issues.

The 1976 Framework Agreement was the EC's first framework co-operation agreement with an industrialised country. It provides for closer business and commercial links, encouraging exchanges and joint undertakings between industries and companies. Under its auspices, co-operation and policy consultation have developed in a number of fields such as environment, telecommunications and the information society. It has also facilitated efforts by both sides to manage and resolve trade and investment disputes, and encouraged their joint contributions to multilateral trade liberalisation.

The 1990 Declaration on European Community-Canada Relations, agreed in Rome on November 22 by Prime Minister Brian Mulroney and Prime Minister Giulio Andreotti, established principles of partnership and common goals for Canada and the European Community. The 1990 Transatlantic Declaration on EU-Canada relations set out the institutional framework for consultation. This framework forms the basis for Summit meetings (twice a year, in Canada and in Europe, between the Prime Minister of Canada on one side and, on the other, the President of the European Council and the president of the European Commission). Also under the 1990 Transatlantic Declaration, ministerial

[144] DFAIT, Opening Doors to the World: Canada's International Market Access Priorities 2001
[145] Ibid

meetings take place in the margin of the Summits, alternately on each side of the Atlantic, between the President of the Council of the European Communities, with the Commission, and the Secretary of State for External Affairs of Canada.

The 1996 Joint Political Declaration on Canada-EU Relations and its Joint Action Plan, both adopted on 17 December at an EU-Canada Summit meeting in Ottawa, set goals for broadening Canada-EU relations not only in the trade and economic areas, but on a broad range of foreign and domestic policy issues as well. On the economic front, both sides commit themselves to strengthening the multilateral trading system and to facilitating their bilateral trade and investment flows.

The Action Plan calls for a joint study into the removal of remaining trade barriers and is structured in four comprehensive chapters: economic and trade relations; foreign policy and security matters; transnational issues such as environment, fighting international crime and terrorism; and fostering links in areas such as education and science and technology.

As set out in the Action Plan, a number of Bilateral Agreements in the trade and economic area were signed and have entered into force: Customs Co-operation (in 1997), Mutual Recognition (in 1998), Veterinary (in 1998) and Competition (in 1999). Discussions are taking place on the possible scope of a Wine and Spirits agreement. In December 1999, Canada and the EU announced a Joint Statement on Electronic Commerce in the Information Society.

The issues dealt with by the Joint Action Plan are reviewed once a year by the EU-Canada Joint Co-operation Committee (JCC). The 2000 JCC has met in Brussels on 9 November.

Furthermore, the Trade and Investment Subcommittee (TISC), which is a Subcommittee of the Joint Co-operation Committee, specifically reviews the trade and investment relationship, including trade irritants and disputes between the EU and Canada. The last TISC took place in Ottawa on 12 June 2000.

Bilateral Agreements[146]

The 1997 Agreement on Customs Co-operation and Mutual Assistance provides the basis for a closer working relationship between EU and Canadian customs administrators to combat fraud and to protect and promote legitimate trade.

The EUCanada Mutual Recognition Agreement (MRA) was signed in May 1998 and entered into force on 1 November 1998. The 1998 MRA facilitates bilateral trade by allowing each side to certify the conformity of products with the standards required by the other.

The EU-Canada Veterinary Agreement, signed at the EU-Canada Summit in Ottawa on 17 December 1998, covers veterinary matters, including sanitary rules for trade in live animals and animal products. The Agreement establishes the framework for the recognition of equivalence of the sanitary measures applied by the two parties for trade in live animals and animal products (in application of the provisions of the WTO SPS Agreement).

[146] DFAIT, Opening Doors to the World: Canada's International Market Access Priorities 2001

The Competition Agreement entered into force upon signature at the Bonn Summit of 16 June 1999. It will provide the means for a more effective and efficient application of EU and Canadian competition rules in cases of common interest. It is also essential for coping with the growing number of cases, which are being reviewed by both the European Commission and the Canadian Bureau of Competition Policy.

At the Ministerial meeting in Montreal on 30 September 1999 it was agreed that the EU and Canada should try to reach a Wine and Spirits Agreement, that would replace the 1989 EC/Canada Agreement concerning Trade and Commerce in Alcoholic Beverages, which is not compatible with present WTO regulations and was signed as the best possible compromise in the days before Uruguay Round Agreements. In November and December 1999, explanatory discussions were held on the possible scope of the agreement. On 26 June 2000 at the Trade Ministers meeting of the biannual EU-Canada Summit in Lisbon, the Commission expressed disappointment with the discussions held so far on an eventual agreement on trade in Wine and Spirits.

The 1998 EU-Canada Trade Initiative (ECTI)[147]

At the EU-Canada Summit in December 1998, both sides agreed to develop the trade chapter of the EU-Canada Action Plan by launching the EU-Canada Trade Initiative (ECTI) as an effective instrument in facilitating trade and reducing or eliminating trade irritants. Positive developments in EU-Canada relations in the previous years will benefit from a further intensification of the bilateral trade link and consultations on multilateral trade issues.

Those consultations have already shown that EU and Canadian positions are aligned on the vast majority of issues on the multilateral trade agenda. The issues addressed by the ECTI fall primarily within the scope of the Joint Co-operation Committee (JCC) established under the 1976 Framework Agreement, and more particularly the Trade and Investment Sub-Committee (TISC) reporting to the JCC. The overall progress of the ECTI was reviewed during the latest JCC meeting on 9 November 2000. It has been agreed that, after the progress made on many of the issues on the ECTI agenda, it is time to broaden ECTI scope to new initiatives. Officials on the two sides are currently working on possible new issues for co-operation.

There has been good co-operation on multilateral issues in the post-Seattle context which both parties intend to continue and reinforce in the coming semester, with the aim of seeking a consensus to launch negotiations as early as possible. At their Summit of 26 June 2000 in Lisbon, the European Union and Canada released a Joint Statement on the WTO that reflects their common views on these issues.

On the bilateral front, trade co-operation is being intensified in the fields of Services, Government Procurement, Biotechnology, Intellectual Property Rights and Business-to-Business contacts. Regarding the "Joint Statement on Electronic Commerce in the Global Information Society" adopted at the 1999 December summit, a progress report has been presented separately to trade ministers at the summit and a work plan has been agreed to. Also, Canada and the EC will enhance ongoing co-operation in promoting recognition of the importance of cultural diversity and will continue exploratory talks with a view to initiate negotiations of a cultural and audio-visual co-operation agreement. The

[147] DFAIT, Opening Doors to the World: Canada's International Market Access Priorities 2001

ECTI may also help facilitate the resolution of new areas of potential trade friction such as genetically modified products and various issues concerning trade in wines and spirits raised by each party.

The Canada-Europe Round Table for Business (CERT)

An early achievement of ECTI is the Canada-Europe Round Table (CERT), which has been set up by the business community on both sides of the Atlantic to provide input on trade and other commercial issues to the European and Canadian administrations.

CERT, a business-driven organisation located in Brussels, is a new forum through which Canadian and European businesses can advise and engage in dialogue with the Canadian government, the European Union institutions and European Member States on bilateral and multilateral trade and investment issues. The focus is on senior executives of CERT member companies who will meet in the margins of the semi-annual Canada-EU Summits or other appropriate intergovernmental conferences.

CERT was formally launched on 16 June 1999 in Brussels. On that occasion, CERT transmitted to Canada and the EU a set of business-related recommendations on biotechnology, e-commerce, intellectual property, WTO and tariff issues for the improvement of the bilateral trade relationship and the multilateral WTO framework. EU and Canada have each provided CERT with a formal reply in the margin of the Ottawa Summit of 16 December 1999. The role of business in promoting trade relations was illustrated by a successful meeting of the Canada Europe Round Table (CERT) of business leaders attended by Commissioner Lamy and Canadian Trade Minister Pierre Pettigrew.

CERT is currently reviewing its membership and organisation. In particular, they are setting up a Canadian structure. CERT will be present at the next summit on 19 December in Ottawa, with the issue of a press release and a policy statement.[148]

[148] European Commission, Market Access Sectoral and Trade Barriers Database