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Home  
About UsContact Us  
What's New  
FAQHelp  
Site Map  
Media RoomSearch  
Glossary  
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HotLinks  
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- International Activities -

Washington, D.C.  
October 1, 2004

## Statement by G-7 Finance Ministers and Central Bank Governors

We thank the United States for presiding over the G-7 this past year and we are gratified by the international economic cooperation that has resulted in new initiatives such as the Agenda for Growth, the Strategic Review, the Global Remittance Initiative, and new G-7 outreach to both the Broader Middle East and North Africa countries and to China. We welcome the United Kingdom to the G-7 presidency in 2005, and we will continue to work together on these and new initiatives.

Global economic growth is strong and the outlook for 2005 remains favorable. Inflation and inflation expectations remain low in our economies. However, this is not the time for complacency. Growth is higher in some regions than in others; imbalances persist. Oil prices remain high and are a risk. So first, we call on oil producers to provide adequate supplies to ensure that prices moderate. Second, it is important consumer nations increase energy efficiency. Third, it is important for consumers and producers that oil markets function efficiently and we encourage the IEA to enhance its work on oil data transparency. We will return to the issue of medium term energy demand and supply at our next meeting.

We reaffirmed our commitment to sound public finances and to strategies for sustained medium term fiscal consolidation. Today we released a new report on our Agenda for Growth in which we agreed to make pro-growth structural reforms a regular part of our work to create more jobs and increase productivity. We welcome recent progress on the Doha Development Round.

We reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely and cooperate as appropriate. In this context, we emphasize that more flexibility in exchange rates is desirable for major countries or economic areas that lack such flexibility to promote smooth and widespread adjustments in the international financial system, based on market mechanisms.

We remain firmly committed to continue to cooperate in combating terrorist financing, which is essential for reducing the risks of terrorist attacks.

Emerging market economies generally face favorable financial conditions; interest rate spreads are low and volatility is down in many markets. We urge emerging market countries to take advantage of the favorable global economic conditions to lessen their vulnerability to external shocks. We urge the Argentine authorities to implement, as soon, as possible the prior actions required for the completion of the Third Review while fulfilling its current obligations fully and timely. Argentina's key challenges remain structural reforms, building a sound fiscal framework, and achieving high creditor participation in a sustainable debt restructuring. We welcome the approval by



the IMF of a sound and credible program for Iraq, which is an important step toward our commitment to resolve Iraq's debt before the end of 2004. We welcome the financial assurances given by Iraq's creditors that made this IMF program possible.

We continue to support efforts to increase economic growth and reduce poverty in poor countries. We welcome the agreement to increase funding for the Asian Development Fund and we look forward to new replenishments of the African Development Fund and IDA. We reaffirm our commitment to fight global poverty and to help countries achieve the international development goals of the Millennium Declaration through our work on debt sustainability, aid effectiveness, absorption capacity, and financing facilities. There is a need for additional financial aid grounded on the principles of good policies, debt sustainability, accounting for results, and enhancing predictability and aid effectiveness. We encourage the development banks to provide quantifiable indicators and results for all projects, and to make them publicly available. We are now committed to addressing the sustainability of debt of the poorest countries by making progress on debt relief and grant financing. We will prepare a progress report on these efforts by the end of the year.

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Français  
Home  
About Us

Contact Us  
What's New  
FAQ

Help  
Site Map  
Media Room

Search  
Glossary  
Publications

Canada site  
HotLinks  
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## Statement on Meeting of the G-7 Finance Ministers and Central Bank Governors with Chinese Counterparts

*Related document:*

- [Statement by G-7 Finance Ministers and Central Bank Governors.](#)

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The G-7 Finance Ministers and Central Bank Governors met informally with China's Finance Minister and Central Bank Governor. They discussed the global economic outlook, macroeconomic policies in G-7 economies and the Chinese economic situation in a candid way. Among other things, they exchanged views on economic impact of oil prices, fiscal and monetary policies in G-7 economies, Asian economic outlook, and exchange rate flexibility. It was agreed that this meeting was a constructive channel to share views on issues of mutual concern and to promote mutual understandings.

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## G8/Broader Middle East and North Africa Finance Ministers' Meeting

### U.S. Treasury Secretary John Snow

#### Summary of Meeting

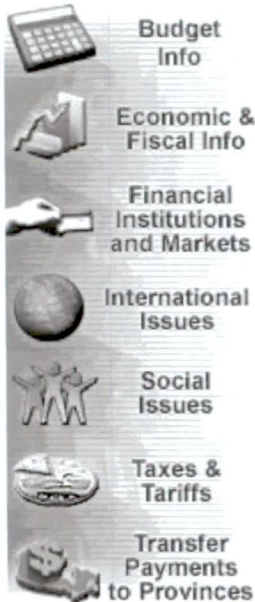
This morning, I hosted a meeting of finance and other economics ministers from the G8 and countries of the Broader Middle East and North Africa (BMENA). This meeting continues a dialogue pursued in September 2003 and April 2004 as well as provides an opportunity to further prepare for the first meeting of the Forum for the Future that leaders from the G8 and the region called for in Sea Island. I stressed that economic freedom can best harness the region's rich human and natural resources to meet the aspirations of its people for jobs and improving living standards. Redefining the role of the state in the economy and allowing people more freedom in their economic decisions will provide them the incentives and opportunities to improve their lives.

Ministers welcomed the strong growth in economies in the region. They agreed it was important to take advantage of the strong global economic environment to implement further reforms to accelerate growth and job creation in our countries. They also welcomed the recent pledge by oil producers to increase production as a contribution to global economic stability.

Ministers from the G8 and BMENA region committed to work together to support market-oriented economic reforms, many of which they noted are already underway. They all stressed that is vitally important that reform be home-grown and initiated within the region, with strong ownership. They also stressed the importance of peace and security for private sector investment led growth. Our support for reform in the region will go hand in hand with our support for a just, comprehensive, and lasting settlement to the Arab-Israeli conflict, based upon U.N. Resolutions 242 and 338.

Ministers highlighted the importance of developing small and medium sized businesses (SMEs) and the private sector generally through targeted policy reforms and technical assistance. In particular, the ministers welcomed the launch of the International Finance Corporation's (IFC) new facility for technical assistance to support development of small businesses and the private sector in the region, which was approved by the IFC Board on September 28. Donors have already pledged at least \$32.4 million to the facility, and additional donors have indicated plans to contribute. The IFC has also devoted \$20 million of its own resources.

Ministers also agreed to enhance dialogue on economic and trade issues and



assess the effectiveness and levels of development assistance to countries of the region. To this end, they asked experts from participating countries and both the regionally based and other development institutions to study and develop a network of funds, taking into consideration existing regional coordination mechanisms and as proposed by G8 and regional leaders in Sea Island, to advise G8 and regional governments on economic growth and job creation and to provide a forum for improved cooperation in improving effectiveness of official financing.

One priority stressed by regional ministers was the need to strengthen human capital and the institutional capacity of governments for development and reform. They asked the Arab Monetary Fund, International Monetary Fund, Arab Fund for Economic and Social Development, Islamic Development Bank and World Bank to consult with interested countries, other official donors, and other institutions active in the region to identify and survey jointly top priorities for technical assistance, particularly monetary, fiscal and financial sector, on a country by country basis and produce a prioritized list for regional governments, G8 and official donors.

To meet the goals of sustained growth, job creation and diversification, ministers underscored the central importance of enhancing the integration of the BMENA region into the global economy. In particular, ministers:

- Supported the ongoing efforts of BMENA countries at the meeting to join the WTO.
- Agreed to discuss at future meetings how each country's ongoing reforms are strengthening its investment climate, with a view to improving certain quantitative indicators that it selects, drawing on work underway in the region.

Regional representatives stressed the need for their economies to be better integrated into the global economy, including through improved opportunities for trade both within the region and with industrial countries. Some Ministers highlighted the importance of financial services liberalization.

All the G8 and BMENA ministers looked forward to the launch of the Forum for the Future to initiate a broad dialogue among their countries. Ministers welcomed the Kingdom of Morocco's offer to host the inaugural meeting of the Forum later this year. The finance and economics ministers agreed to continue their dialogue and participate in the Forum for the Future.

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- \$30 million for the Canadian Academies of Science to provide independent expert assessments of the science underlying key issues.
- \$165 million for Genome Canada in support of breakthrough genomics research.
- \$20 million for Precam, which specializes in advanced robotics and artificial intelligence.

These initiatives build on the \$11 billion added by the Government of Canada in university-based research since 1998.

### **3 Investing in Regions and Sectors**

The Government of Canada is committed to strengthening its support for regional and sectoral development to ensure that all of Canada's regions and economic sectors can contribute to—and benefit from—economic growth and rising living standards.

Budget 2005 delivers on this commitment through investments totalling \$1.2 billion in regional development initiatives in all parts of Canada. This includes:

- \$800 million for regional economic development agencies in Atlantic Canada, Western Canada, Quebec and Northern Ontario.
- \$120 million for the Northern Strategy to help Canada's three territories promote economic development.
- \$55 million over the next five years for Community Futures Organizations, which provide loans to small businesses in every province and territory of Canada.

Budget 2005 also increases funding to key sectors of Canada's economy, such as agriculture and energy.

### **4 Maintaining a Fair and Competitive Tax System**

Budget 2005 will reduce taxes for all taxpayers—especially those with low and modest incomes. It will also maintain Canada's corporate tax advantage relative to the United States. Once the measures in Budget 2005 are fully in place:

- Taxpayers will no longer pay any federal tax on income up to \$10,000 (see box below).
- Registered retirement savings plan and registered pension plan limits will increase to \$22,000 to support savings and investment.
- The corporate surtax, originally introduced to help fight the federal deficit, will be eliminated.
- The general corporate income tax rate will be reduced to 19 per cent from 21 per cent.

<b>Increasing the Basic Personal Amount</b>
---

Currently, individuals can earn up to about \$8,000 without paying federal personal income tax. Income above that level is subject to federal tax.

By 2009, the amount that individuals can earn tax-free will increase to at least \$10,000.

This measure will provide tax relief for all taxpayers—worth about \$7.1 billion over the next five years.

Most of the benefit will go to those with low and modest incomes. For example, this measure will remove 860,000 low-income taxpayers from the tax rolls, including about 240,000 seniors.

Legislation to implement these measures will be introduced at the earliest opportunity.

## 5 Making Markets More Efficient and Effective

The Government of Canada is committed to creating a more favourable climate for business and investment—not only by reducing taxes but also through more efficient regulation.

Budget 2005 delivers on this commitment through various regulatory reforms and related initiatives that will help stimulate economic growth. These include:

- Eliminating the 30-per-cent foreign property limit on pension investments effective immediately.
- Launching a review of legislation governing Canada's financial institutions to improve consumer protection and promote greater efficiency.
- Increasing deposit insurance coverage to \$100,000 from \$60,000 to better protect consumers.
- Reducing overlap and duplication between federal agencies that regulate Canada's financial sector.

The Government of Canada will also work with the provinces and territories to improve securities regulation.

## How Can I Get More Information on Budget 2005?

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# Somalia's Exiled Leaders Visit Homeland to Assess Move to Mogadishu

By Alisha Ryu  
Nairobi  
25 February 2005

For the first time, Kenya, the leader of their homeland, the Somali capital.

Somali President Mohammed Ali of Jowhar, about

The two leaders finding and confident. Because of security has been based in ago.

In speeches, President functioning government would be established in the country after 14 years of chaos and lawlessness.

The president declined offers from leaders in Jowhar to temporarily host the government in their town. He insisted that the government must be seated in the capital to be seen as legitimate. He further vowed, "to thwart the efforts of the minority in Mogadishu who reject peace."

Somalia has been without a government since 1991 when a coalition of warlords overthrew dictator Mohammed Siad Barre and then turned the Horn of African nation into a violent patchwork of fiefdoms.

Despite the presence of several top Somali warlords as ministers in the new government, there has been no consensus about how to move the government safely to Mogadishu, where the warlords' well-armed militias still fight on a regular basis.

President Yusef and Prime Minister Gedi are planning to visit the capital, where many people say they are eager to see a government take office. But some Somalis vehemently oppose the government's plan to deploy between five and 7500 peacekeepers from the

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## Somalia's Exiled Leaders Visit Homeland to Assess Move to Mogadishu

By Alisha Ryu

Nairobi

25 February 2005

For the first time since taking office last October in neighboring Kenya, the leaders of Somalia's government in exile are visiting their homeland, assessing conditions for moving the government to the Somali capital of Mogadishu.

Somali President Abdullahi Yusuf Ahmed and Prime Minister Mohammed Ali Gedi began their five-day, six-city tour in the town of Jowhar, about 90 kilometers north of Mogadishu.

The two leaders arrived there late Thursday, as part of a fact-finding and confidence building trip for the new government. Because of security concerns in the Somali capital, the government has been based in Nairobi, Kenya since it was formed four months ago.

In speeches, President Yusef focused on reassuring Somalis that a functioning government would be established in the country after 14 years of chaos and lawlessness.

The president declined offers from leaders in Jowhar to temporarily host the government in their town. He insisted that the government must be seated in the capital to be seen as legitimate. He further vowed, "to thwart the efforts of the minority in Mogadishu who reject peace."

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President Yusef and Prime Minister Gedi are planning to visit the capital, where many people say they are eager to see a government take office. But some Somalis vehemently oppose the government's plan to deploy between five and 7500 peacekeepers from the

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African Union and the Arab League to pave the way.

Some people oppose the idea of including Ethiopian soldiers in the African Union peacekeeping force. The two neighbors have bitter relations over long-standing territorial disputes and Somali claims that Ethiopia helped fuel the civil strife in Somalia by backing one of the country's factional leaders.

Other Somalis, particularly hard-line Islamic clerics, reject the idea of deploying any foreign peacekeeping force on Somali soil. In early January, the head of the country's Supreme Council of the Islamic Courts, held a protest rally in Mogadishu calling on Somalis to prepare for a holy war against all foreign, non-Muslim, troops if they arrive in the country.

A spokesman for the Addis Abba-based African Union, Desmond Orjiako, says his organization is prepared to contribute whatever the new Somali government needs to ensure its safe return.

"For us here in the African Union, we believe it is in the interest of the people of Somalia that all the people embrace the government that is coming there. There is prospect for peace if all the people of Somalia embrace themselves and their neighbors because at the end of the day, they have to live in peace," Mr. Orjiako said.

But a Brussels-based research organization, the International Crisis Group, has warned that if the concerns of Somalis are not adequately addressed, they could result in further violence. The group notes that the deployment of U.S. and U.N. peacekeepers in the early 1990s sparked some of the worst fighting in Somali history.

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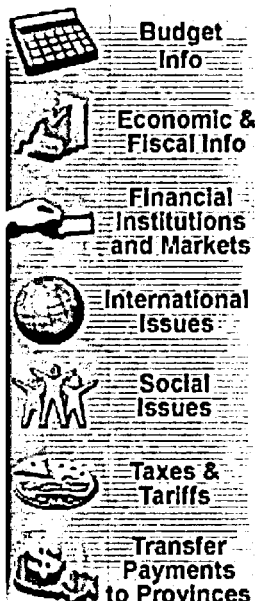
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See also:

- [Annual Financial Report of the Government of Canada - Fiscal Year 2003-2004.](#)

## Preface

The Fiscal Reference Tables provide annual data on the financial position of the federal and provincial governments. The data are presented on both a [Public Accounts](#) basis—corresponding to the accounting conventions used to report financial information to the respective legislatures—as well as on a [National Accounts](#) basis—as prepared by Statistics Canada and the [Organisation for Economic Co-operation and Development](#).

For information or clarification, please contact Paul Rochon at (613) 996-9447, Fiscal Policy Division, [Department of Finance](#), Ottawa, Ontario, K1A 0G5.

For inquiries about computerization and database management, please call Richard Hotte at (613) 992-6720.

## Table of Contents

### Federal Government—Public Accounts

- [1 Fiscal transactions \(millions of dollars\).](#)
- [2 Fiscal transactions \(per cent of GDP\).](#)
- [3 Budgetary revenues \(millions of dollars\).](#)
- [4 Budgetary revenues \(per cent of GDP\).](#)
- [5 Budgetary revenues \(per cent of total\).](#)
- [6 Excise taxes and duties.](#)
- [7 Budgetary expenses \(millions of dollars\).](#)
- [8 Budgetary expenses \(per cent of GDP\).](#)
- [9 Budgetary expenses \(per cent of total\).](#)
- [10 Major transfers to persons.](#)

- 11 Major transfers to other levels of government.
- 12 Details of program expenses.
- 13 Public debt charges.
- 14 Interest-bearing debt.
- 15 Gross and net debt.
- 16 Unmatured debt held by outside parties.

#### **Provincial and Territorial Governments—Public Accounts.**

- 17 Newfoundland and Labrador.
- 18 Prince Edward Island.
- 19 Nova Scotia.
- 20 New Brunswick.
- 21 Quebec.
- 22 Ontario.
- 23 Manitoba.
- 24 Saskatchewan.
- 25 Alberta.
- 26 British Columbia.
- 27 Yukon Territory.
- 28 Northwest Territories.
- 29 Nunavut.
- 30 All provinces and territories (millions of dollars).
- 31 All provinces and territories (per cent of GDP).

#### **National Accounts.**

- 32 Total government income.
- 33 Total government outlay.
- 34 Total government saving and capital and financial account.
- 35 Federal government income.
- 36 Federal government outlay.
- 37 Federal government saving and capital and financial account.
- 38 Provincial and territorial government income.
- 39 Provincial and territorial government outlay.
- 40 Provincial and territorial government saving and capital and financial account.
- 41 Local government income.
- 42 Local government outlay.
- 43 Local government saving and capital and financial account.
- 44 Total Canada Pension Plan and Quebec Pension Plan.
- 45 Actual, cyclically adjusted and primary-cyclically adjusted budget balances (millions of dollars).
- 46 Actual, cyclically adjusted and primary-cyclically adjusted budget balances (per cent of GDP).
- 47 Change in actual, cyclically adjusted and primary-cyclically adjusted budget balances (per cent of GDP).
- 48 Indicator of fiscal policy stance.
- 49 Federal government liabilities and assets.
- 50 Provincial and local governments' liabilities and assets.
- 51 Canada Pension Plan liabilities and assets.
- 52 Quebec Pension Plan liabilities and assets.
- 53 Total government liabilities and assets.

#### **International Fiscal Comparisons.**

- 54 G-7 General government total tax and non-tax receipts.
- 55 G-7 General government total outlays.
- 56 G-7 General government financial balances.
- 57 G-7 General government net financial liabilities.
- 58 G-7 general government gross financial liabilities.

---

Last Updated: 2005-01-12



[Important Notices](#)

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CanadaMinistère des Finances  
Canada

Canada

[Français](#)  
[Home](#)  
[About Us](#)[Contact Us](#)  
[What's New](#)  
[FAQ](#)[Help](#)  
[Site Map](#)  
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[Glossary](#)  
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## Moving Towards a Green Economy

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### A Better Environment—A Stronger Economy

The Government of Canada believes that a healthy and sustainable environment is an integral part of economic growth. Since balancing the budget in 1997–98, the Government has allocated more than \$10 billion to enhance the quality of our land, air and water by addressing climate change, cleaning up contaminated sites, developing and enforcing environmental protection laws, and investing in environmental technologies.

Budget 2005 builds on these substantial measures taken over the last few years to improve the environment and address climate change. It takes significant new steps forward on a number of different fronts.

### Budget 2005—Delivering on Commitments

Budget 2005 delivers on the Government's commitment to a green economy with a \$5-billion package of measures over the next five years to support a sustainable environment by:

- 1 Addressing climate change by promoting reductions in greenhouse gas (GHG) emissions and encouraging the development of environmental technologies.
- 2 Building on existing tax measures to encourage Canadian businesses to invest more in efficient and renewable energy generation.
- 3 Investing in public infrastructure to encourage more efficient use of energy as well as the remediation of brownfield sites.
- 4 Protecting our natural environment, including the Great Lakes, oceans and national parks.

### 1 Addressing Climate Change

This budget makes significant investments aimed at reducing GHG emissions, and developing science and technology that will help build the framework for a comprehensive and sustainable response to the challenge of climate change.

Specifically, this budget provides:

- \$1 billion over five years for the Clean Fund to encourage cost-effective projects and actions that reduce greenhouse gas emissions.
- \$250 million to create a Partnership Fund for projects that are best achieved through cooperation between the federal government, and provinces and territories.
- \$225 million over five years to quadruple the number of homes retrofitted under the EnerGuide for Houses Retrofit Incentive program (see box).
- \$200 million over five years to help develop a Sustainable Energy Science and Technology Strategy.
- \$200 million over five years to further stimulate the use of wind power through the Wind Power Production Incentive.
- \$97 million over five years for a new Renewable Power Production Incentive to encourage the use of other renewable energy technologies such as small hydro, biomass and landfill gas.

These initiatives will allow individuals, industry and governments to play an active role in addressing climate change.

While helping curb Canada's GHG emissions, the initiatives will promote Canadian technologies and innovation while opening the door to new economic opportunities.

#### **The EnerGuide for Houses Program**

The EnerGuide for Houses program is designed to help homeowners reduce their energy consumption. The program offers grants for people who improve the energy rating of their houses, based on a simple, 100-point scoring system called the EnerGuide.

So far, grants average \$630 per home in addition to an average of 27 per cent savings on home energy bills every year.

On a \$2,400-per-year energy bill, this translates into more than \$600 in savings.

## **2 Environmental Tax Measures**

The tax system has encouraged investment by businesses in efficient and renewable energy generation equipment through an accelerated 30 per cent capital cost allowance rate.

#### **Efficient Renewable Energy Generation Equipment**

The capital cost allowance (CCA) system determines how much of the cost of a capital asset a business may deduct in a particular year.

In order to encourage the generation of more environmentally friendly forms of energy, the Government provides an accelerated capital cost allowance for certain equipment that produces energy efficiently or from renewable

sources.

The list of eligible equipment includes, among others: cogeneration equipment, wind turbines, small hydroelectric facilities, and geothermal energy systems.

Budget 2005 enhances this support by:

- Increasing the CCA rate to 50 per cent from 30 per cent for environmentally friendly forms of energy.
- Extending this incentive to include district energy and biogas production systems.

Enhanced incentives in this area will contribute to reduced GHG emissions, better air quality and a more diverse energy supply.

The Government will consult on other opportunities to use the tax system to further environmental objectives.

### **3 Investing in Public Infrastructure**

Budget 2005 targets a series of infrastructure-related investments to achieve better environmental outcomes through two complementary streams:

#### ***Sustainable Environment***

- \$300 million for the Green Municipal Funds, \$150 million of which will be used to help communities clean up and redevelop brownfields, which are abandoned sites where environmental contamination exists.

#### ***Sustainable Communities***

- The equivalent of \$5 billion over five years out of federal gas tax revenues to municipalities for infrastructure projects like transit, water and community energy systems.
- The renewal of infrastructure programs such as the Canada Strategic Infrastructure Fund and the Municipal Rural Infrastructure Fund, which invest more than 50 per cent of funding toward sustainable infrastructure.

### **4 Protecting Our Natural Environment**

Canadians are proud of the beauty and quality of their natural environment and want to protect this rich inheritance of land, water and biodiversity.

Budget 2005 delivers on this commitment to the environment by providing:

- \$209 million over five years to improve public infrastructure in Canada's national parks.
- \$60 million over five years to restore the ecological integrity of our national parks.
- \$85 million over five years to minimize the risk of invasive alien species such as the sea lamprey in the Great Lakes.
- \$40 million over five years to improve the ecological integrity of the Great Lakes ecosystem.
- \$28 million over two years to help develop a competitive and sustainable Oceans Action Plan.
- \$15 million annually to discourage foreign overfishing in the Northwest Atlantic.
- An additional \$90 million over five years to conduct health risk assessments and research to reduce Canadians' exposure to toxic substances.

### **Guiding Principles for Long-Term Progress**

The following principles guide the Government of Canada's decisions in allocating funds for various environmental and climate change measures:

**Balance:** Investments must balance the need for short-term action to protect our natural environment and long-term measures to spur change in public behaviour and business practices.

**Competitiveness:** Environmentally sustainable economic growth is essential to Canada's long-term international competitiveness, but the transition to a more sustainable economy must also weigh carefully the impact on the country's short-term competitiveness.

**Partnership:** To the greatest extent possible, investments should lever funds outside the Government of Canada and encourage responses from industry, citizens and other levels of government.

**Innovation:** Investments should promote innovation and support new technologies that feed economic growth, create new opportunities and provide long-term improvements.

**Cost-effectiveness:** Initiatives should achieve environmental benefits at the lowest possible cost.

#### **Allocation of Proceeds From the Sale of the Government's Petro-Canada Shares**

The Government of Canada is delivering on its commitment to dedicate \$1 billion of the proceeds from the sale of Petro-Canada shares directly to investments to support the development and deployment of environmental technologies over the next five years.

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Sustainable Development

# Millennium Development goals

## Somalia Country Profile

	1990	1995	2001	2002
<b>Click on the indicator to view a definition</b>				
<b>1 Eradicate extreme poverty and hunger</b>				
<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>				
Population below \$1 a day (%)	..	..	44.8	..
Poverty gap at \$1 a day (%)	..	..	17.3	..
Percentage share of income or consumption held by poorest 20%	..	..	5.6	..
Prevalence of child malnutrition (% of children under 5)	30.3	27.3	24.9	..
Population below minimum level of dietary energy consumption (%)	35.0	17.0	12.0	..
<b>2 Achieve universal primary education</b>				
<i>2015 target = net enrollment to 100</i>				
Net primary enrollment ratio (% of relevant age group)	..	..	60.2	..
Percentage of cohort reaching grade 5 (%)	80.5	..	66.3	..
Youth literacy rate (% ages 15-24)	81.8	87.1	91.6	92.2
<b>3 Promote gender equality</b>				
<i>2005 target = education ratio to 100</i>				
Ratio of girls to boys in primary and secondary education (%)	76.7	..	88.6	..
Ratio of young literate females to males (% ages 15-24)	85.5	90.9	95.2	95.7
Share of women employed in the nonagricultural sector (%)	56.6	..	..	..
Proportion of seats held by women in national parliament (%)	..	8.0	..	..
<b>4 Reduce child mortality</b>				
<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>				
Under 5 mortality rate (per 1,000)	125.0	110.0	100.0	97.0
Infant mortality rate (per 1,000 live births)	78.0	69.0	62.0	60.0
Immunization, measles (% of children under 12 months)	61.0	70.0	81.0	81.0
<b>5 Improve maternal health</b>				
<i>2015 target = reduce 1990 maternal mortality by three-fourths</i>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	540.0	..
Births attended by skilled health staff (% of total)	40.2	43.8	..	..
<b>6 Combat HIV/AIDS, malaria and other diseases</b>				
<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>				
Prevalence of HIV, female (% ages 15-24)	..	..	3.0	..
Contraceptive prevalence rate (% of women ages 15-49)	12.9	20.3	..	..
Number of children orphaned by HIV/AIDS	..	..	200.0 thousand	..
Incidence of tuberculosis (per 100,000 people)	..	..	201.0	210.6
Tuberculosis cases detected under DOTS (%)	..	14.0	44.0	40.8
<b>7 Ensure environmental sustainability</b>				
<i>2015 target = various (see notes)</i>				
Forest area (% of total land area)	33.1	..	27.8	..
Nationally protected areas (% of total land area)	..	4.8	4.9	5.6
GDP per unit of energy use (PPP \$ per kg oil equivalent)	3.8	4.3	5.0	..
CO2 emissions (metric tons per capita)	0.2	0.3	0.3	..
Access to an improved water source (% of population)	53.0	..	73.0	..
Access to improved sanitation (% of population)	61.0	..	72.0	..
Access to secure tenure (% of population)	..	..	..	..
<b>8 Develop a Global Partnership for Development</b>				
<i>2015 target = various (see notes)</i>				
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	2.9	4.1	20.8	33.4
Personal computers (per 1,000 people)	0.0	1.2	3.3	3.8
<b>General indicators</b>				
Population	15.3 million	17.5 million	19.9 million	20.3 million
Gross national income (\$)	5.8 billion	6.3 billion	5.8 billion	5.5 billion
GNI per capita (\$)	380.0	360.0	290.0	270.0
Adult literacy rate (% of people ages 15 and over)	58.5	65.2	72.7	73.8
Total fertility rate (births per woman)	5.5	4.6	4.3	4.1
Life expectancy at birth (years)	57.2	59.2	57.0	54.9
Aid (% of GNI)	9.7	10.3	12.6	10.8
External debt (% of GNI)	66.5	93.1	129.5	121.7
Investment (% of GDP)	14.4	20.0	26.6	19.7
Trade (% of GDP)	42.7	57.4	110.0	97.5

Source: World Development Indicators database, April 2004



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5

Views about foreign army deployment in Somalia examined  
Written by Zailici( real name Samatalis Haille, a recent graduate from University of Minnisota, USA, with degree in Philosophy and Social Sceinces) Somalis passionately express different views on the question of foreign army deployment in Somalia. They tend, with some regularity, to emphasize what is reasonable about their views and refrain from addressing what is unreasonable ; this selective emphasis, or some would say this ethnocentrism, predominates Somali political discourse. This paper, therefore, aims to expose this predominant feature of Somali political discussion as it pertains to the foreign army deployment in Somalia. Moreover, the paper contends that each view hitherto advanced has both reasonable and predatory (exploitative) consequences. To achieve its ends the paper is organized in the following fashion: In section I, I will cover some general characteristics of prevailing conditions in southern Somalia; In section II and III, I will survey different views people advance with regard to the foreign army deployment and their legitimate and exploitative consequences. Finally, I will suggest and justify what the Somalis and the international community can do to ameliorate or aggravate volatile human conditions in this precarious Republic.

### Section I

#### a) Current prevailing dynamics

While opposing views with regard to the foreign army deployment are advanced here and there, Somalia remains in anarchy: there is no common power capable of providing collective goods and services such as security provisions and arbitrations of disputes. Consequently, groups, supply their own resources to secure themselves from others and resolve disputes. Somalia's prevailing anarchy, however, is entering a new stage, a stage where two major changes are about to unfold1: 1) possible shift of politico-military power (this shift is likely if biased army such as Ethiopia is deployed in Somalia, we will discuss this point farther in section 1, part c ; 2) Period of possible disarmament and demobilization of armed militia.

These likely impending changes generate a high degree of uncertainty and fear as well as an opportunity for triumph and defeat. These fearful and uncertain times incline people to assume worst-case scenario and thereby adopt various strategies that aim towards gaining more security from impending calamities; these strategies can range from radicalization of political discourse to preparation of preventive and preemptive attacks. Under such conditions, where the worst case scenario is expected, slightest accidents, banditry acts, extremist operations can easily drag the entire groups into sustained armed conflict. It is under such background conditions, that we examine the opposing views hitherto advanced with respect the foreign army deployment in Somalia. Moreover, we will repeatedly assume the worst-case scenario( as folks finding themselves in fearful and uncertain times do) to determine what is reasonable and what is not so reasonable.

## Section II

### a) TFG position towards the deployment of peacekeeping force

President Abdulahi Yusuf Ahmed made a proposal to the Peace and Security Council of the African Union in October, 2004 consisting of three points: 1) First, AU, he asserted, must deploy a peacekeeping force ranging from 20, 000 to 30,000<sup>2</sup> ; Second, AU must recruit, train, and equip 20, 000 to 30,000 national security force, including an army and police<sup>3</sup>; Third, Until the TFG ( Transitional Federal Government) develops into a sustainable institution capable of generating revenues through taxation and resource mobilization, the international community should bear the financial burden of bringing peace and security to Somalia<sup>4</sup>. Some of the aforementioned requests had already been granted.<sup>5</sup>

To ensure the plans of the TFG are attained, it pursues a politico-military strategy that emphasizes three factors : 1) deployment of foreign army , including an army from neighboring countries<sup>6</sup>; 2) recruitment of national security force from a population other than clan militia; TFG officials have indicated in numerous times<sup>7</sup> that they desire to disarm and demobilize current armed militia rather than train, equip, and nationalize them to take part in the stabilization process ; 3) relocation to a city other than Mogadishu .<sup>8</sup>

### b) Legitimate objectives of the TFG

The demands of the TFG for foreign army deployment, excluding Ethiopian army deployment, is, I believe, a reasonable one, because deployment of neutral peacekeeping force is likely to change the prevailing conditions, which currently favor conflict and exploitation rather than cooperation and reconciliation, by monitoring and reinforcing cease fire and other broadly reached agreements. More neutral peacekeeping force will also encourage formation of regional administrations where they do not exist, encourage amicable resolution to the question of land and clan in the southern Somalia, train security forces, protect the TFG and key infrastructures such as ports and airports. Moreover, a neutral peacekeeping force, above all, would enable TFG members to express and advance their own ideas without fear of their own safety. However, such freedom is unlikely, if the government relies its safety on particular clan based militia, for they( TFG members) will be inclined, out of common sense, not to pursue or endorse whatever policies that may upset their protectors: if they do, they will be annihilated. TFG is likely, under these

conditions, to degenerate into an institution dominated by particular groups. It is for these reasons, and perhaps many others, that TFG is reasonable in demanding a peacekeeping force that protects itself and key government installations .

c) Predatory objectives of the TFG

The objectives, however, that the TFG pursues, are in another respect predatory, for they (some TFG members) endorse the deployment of known biased army: Ethiopia. The critic may suggest that Yusuf, and his collogues in the TFG, do not only advocate for the deployment of Ethiopian army, but also advocate for the deployment of any army willing to be deployed in Somalia including Igad armies; Since Igad states are willing to deploy their own troops in Somalia, the critic suggests, we have no reason to reject them, if they are willing to help us stabilize the country. The critic continues, since many people are concerned about Ethiopia's biases to its friends, we believe that these biases would be neutralized by the biases of other Igad countries such as Sudan, Djibouti, and Eritrea. I respond to the critic : Sudan is in the midst of civil war, it is not likely, therefore, that it will send large troops that are capable of neutralizing Ethiopian army biases. In fact, Sudan wants a foreign army for itself to resolve its problems in Dafur region. Djibouti is small country, which cannot match in terms of numbers and firepower to its Ethiopian counterpart; Eritrea is hesitant and remains undecided as of this day of my writing. AU-Arab force is likely not to be deployed in the nearer future ( simply they are not ready yet). Now, Granting that in the end AU-Arab force would neutralize Ethiopian biases, Ethiopia, however, in the mean time would have the opportunity to crush its opponents in the south before more neutral force is deployed( we shall fully discuss this point in the next paragraph). Moreover, if biased peacekeeping force ( IGAD peacekeeping force) are brought to Somalia shall they not, I ask, side with their respective friends and inflame the civil war rather than assist in its resolution ?.

On the other hand, TFG aims to recruit, train, and equip a new national security force rather than transform clan based militia into national security force. Now, If militia are disarmed and new security force is established under the command of the TFG and if Ethiopia is allowed to deploy its troops in southern Somalia, then it is likely that TFG and its friends, Ethiopia, would acquire immense power that can be used to dictate the destiny of southern Somalia and perhaps its adjacent territories; this can happen even if Ethiopian army is deployed in southern Somalia as temporary army until more neutral AU-Arab force can be deployed. How so ? Ethiopia is likely, under worst case scenario, to aid Yusuf to pacify areas south of Mogadishu, such as Juba and shebele valley, while simultaneously enabling TFG to build a strong army based in Baidabo, or else where in the South. As time goes by, Ethiopia and its friends would be better positioned to carry out military operations( under the pretext of stabilization, disarmament and terrorism) so as to eliminate their opponents and further consolidate their power in the country. This scenario, on one hand, will enable the TFG to rule the fertile areas south of Mogadisho , on the other hand, it will enable Ethiopia, in theory, not to worry about insurgent movements in southern Ethiopia, such as Ogeden National Liberation Front and Oromo Liberation Front, for they, in this new period, will be besieged ( subsequently, it is hoped that they will die due to lack of military supplies and other necessities to continue the resistance) by Ethiopian army in one side and its friends on the other side. Under this scenario, Ethiopia would be able, if it succeeds, to shift more military and financial resources from the periphery to

the center to deal with more numerous and more threatening opposition.

### Section III

#### a) Position of the Mogadishu group

There are many groups who qualify the notion of foreign army deployment in Somalia; however, they share one thing : they all oppose the deployment of Ethiopian army. They argue that Ethiopia 1) is a traditional Somali foe who has long historical and strategic interest in Somalia<sup>9</sup> 2) a state that is not neutral about Somali conflict, in fact it is state that have actively participated in the conflict<sup>10</sup>; 3) would not contribute to peace but rather would undermine peace efforts and enflame the civil war by siding with its friends and weakening its opponents<sup>11</sup>. It is not surprising, therefore, that some have called for armed resistance against them<sup>12</sup> others have called for a holy war to defeat them if deployed in Somalia.<sup>13</sup>

Most of the groups that oppose Yusuf and his colleagues in and outside of the transitional authority, let us call them Mogadishu group( this name is reasonable because those who oppose and show their opposition towards Ethiopian army deployment were highly visible in and around Mogadishu), also espouse, with the exception of Mohamed Dhere faction, other objectives: They believe that TFG should be relocated to Mogadishu and they also believe that clan-based militia should be transformed into national security force.<sup>14</sup> .

#### b) Legitimate objectives of Mogadishu group

If TFG attains its objectives,( deployment of Ethiopian army , relocation to a city other than Mogadishu, say Baiydabo, and creation of national security force other than clan based militia) then TFG as well as Ethiopia would have a center of military power in the south that can be used to pursue narrow military objectives. Moreover, Ethiopia would have a legal means to transfer large army and military hardware from its center to the Southern Somalia. Under worst-case scenario, Ethiopia may itself attempt to isolate or attack Mogadishu under the name of terrorism to draw the attention of Washington; So that it can acquire the resources needed to continue to sustain its gains and put down the subsequent armed resistance, while at the same time enabling its friends to rule the pacified land and populations in the south. Such scenario, for Mogadishu groups, and to be sure for many Somalis, is fundamentally unacceptable. Now, if one were to expect the worst-case scenario , which is not unreasonable when one's survival is stake, then the opposition to Ethiopian army deployment would be legitimate and reasonable concern to be expressed and advanced by concerned groups.

#### c) Predatory objectives of Mogadishu groups

If, on the hand, the wishes of Mogadishu group were granted, namely 1) relocation to Mogadishu; 2) non deployment of foreign army; 3)and nationalization of militia rather than disarmament and demobilization, Mogadishu groups both within and outside TFG would be better placed not only to defend themselves but also to dominate the TFG itself . The TFG, under such conditions, is likely to degenerate into an institution dominated by Mogadishu factions because the primary force protecting and serving the TFG would be drawn from Mogadishu factions who dominate the city, and because of this reason, TFG would be wise enough not to infuriate its protectors: if it

does inhalation cannot be ruled out. Thus, without foreign army deployment, relocation to Mogadishu, and nationalization of militia is, under worst-case scenario, recipe for the continuation of anarchy( with its far reaching consequences, many of the neighboring countries regard the southern anarchy as source of the regional instability ) and degeneration of the TFG into dependent Institution rather than an independent institution capable of stabilizing the country. For these reasons, and perhaps many others, such policies advocated by Mogadishu groups, viewed from this perspective, do not seem to be reasonably acceptable. Like wise, areas south of Mogadishu, if above wishes are granted, would continue to be under the domination of H/Gidir clans. Some groups challenge H/Gidir domination in the areas south of Mogadishu, for they argue that this domination in the south deprives native clans an opportunity to rule their own territories; This is reasonably legitimate concern that needs to be addressed. However, the argument becomes circular and unconvincing if non "native clans" advance similar proposition. I will discuss the land question and clans in another forthcoming paper.

#### Conclusion

So, as you can see TFG has legitimate point in rejecting the demands of the Mogadishu group, if , however, TFG concedes to Mogadishu demands, then its fear of degenerating into Mogadishu dominated government is very plausible, but on the same reasoning, if TFG is granted what it wishes: Igad army deployment, relocation to a city other than Mogadishu and creation of national security force( recruited and equipped under the command of the TFG), TFG too would degenerate into an institution dominated by those who are friendly to Ethiopia ; it would do so because Ethiopia is likely to aid its friends in Somalla to crush their common opponents. What therefore, TFG and Mogadishu groups reject would turn out to be the same :Each one of them pursues policies that would not only guarantee their safety but also would enable them to pursue predatory objectives such as domination and exploitation.

#### Recommendations I

1-Support the deployment of more neutral AU-Arab force and exclude neighboring states particularly Ethiopia.

#### Recommending II

2- AU-Arab force may assist: 1) in training, equipping and nationalizing clan based armed militia such as Digil & Mirifle Militia In Bay region, \*\*\*\*\* Militia in Jubba provinces and \*\*\*\*\* Militias in Mogadishu; 2) in establishing regional administrations where they do not exist.

#### Justifications

Nationalizing clan militia and establishing strong regional administrations would dissipate fears that many groups display with respect to certain elements of the TFG, for they, under this arrangement, would have a necessary provision to protect themselves from worst case scenarios : such as degeneration of the TFG into clan or group dominated institution, a military coup facilitated by local or foreign entities, or some other conditions that expose some disarmed groups to their armed opponents. The potential consequences of such worst case scenarios are easy to guess: unarmed former

adversaries are likely to be exploited, dominated and, in the worst case scenario, annihilated. Thus, Powerful clans and regions are, therefore, necessary to prevent abuse of power. Moreover, establishment of more strong clan based regional administrations are also consistent with the constitution of the Federal Republic.

The policies of Transforming clan-based militia into national security force and creation of regional administrations where clans dominate is not an invention or new idea, it is rather a working idea in Somaliland and Puntland. We therefore, believe it should be replicated in the south. The use of clans to recruit armed forces and create regional administrations with the facilitation of more neutral peacekeeping force is promising policy, because it is simply a familiar policy that has been used to build a governments and regional administrations in Somalia; it is also a policy that is not strange to the Somali public. likewise, this policy pursued under conditions that favor cooperation and reconciliation, rather than exploitation and conflict, is likely dissipate fears and, consequently, provide conditions that are favorable to political development.

Opponents of nationalization of clan militia and use of clan, in general, as basis of politico-military arrangements are likely to argue that a sustainable government cannot exist or survive where clans or regions are still powerful. What about, I ask, powerful government and weak clans and regions? Isn't a recipe for massacre, tyranny and another cycle of power abuse? TFG leaders, for instance, cannot guarantee that they will not abuse power, if they say they will not honestly abuse power, they still cannot guarantee that they will not change their mind in the future; lack of commitment and uncertainty about the future would naturally pressure clans and other organized groups to trust no one other than themselves. Consequently, this would necessitate creation of an arrangements guarded by clans and groups themselves to check the tendencies of federal authority to abuse power.

Finally, regionalism and the use of clans to recruit, train, equip national security force, and to form regional administrations is plausible policy to be pursued during the transitional period, and perhaps until more acceptable framework can be worked out to settle the land and clan question in southern Somalia. End of the discussion.

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2- Peace and Security Council. "Report of the Chairperson of the Commission on the support of the African Union to the Transitional Institutions of Somalia"

January, 25, 2005. . ( Accessed on January 30, 2005). 2.

3- See Report of the Chairperson, 2, cited in number 2.

4- See Report of the Chairperson, 2, cited in number 2

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7- President Yusuf and his collogues, have several times indicated to the media that they prefer to disarm the armed militia rather than integrate them to the national security force, see the interview: Waraysi( interview with spokesman of President Yusuf Ahmed, Yuusuf Bari-Bari- Feb 14, 2005 at [www.hiiraan.com](http://www.hiiraan.com),. See also the interview of Yusuf Azhari with this website [www.hornafrik.com](http://www.hornafrik.com). At February 15, 2005. (Accessed also February 16, 2005).

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Wed February 9, 2005. . ( Accessed February 17, 2005).

13 Reuters. "Somalia clerics reject African troop deployment" Feb 11, 2005 (Accessed February 17, 2005).

14 Almost all \*\*\*\*\* factions espouse these views: relocation to Mogadishu, non-Igad army deployment, and nationalization of armed militia rather than disarmament see an Interview of Muse Sudi Yalahow at :[www.hiiraan.com](http://www.hiiraan.com) Waraysiga Muse Sude. Farxiyo C. Qaajo, BBC Somali service section, interviewed Yalahow.

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Happiness is produced through concious effort, thus one creates happiness but does not wait happiness it self to come.

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## Publications

Annual lists 

# The Economy in Brief December 2004

- Economy in Brief 2004 -

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## Overview

- In the third quarter of 2004 real gross domestic product (GDP) grew a solid 3.2%, following a 3.9% increase in the second quarter.
- Final domestic demand growth rose to 3.3% in the third quarter from 2.1% in the second. Stronger growth in consumer spending and business investment in machinery and equipment led the way. Business inventory investment surged \$16.9 billion, up sharply from \$2.3 billion in the second quarter.
- Part of the increased demand was met through a 13.0% jump in real imports. Real exports fell 2.0% after an 18.0% surge in the second quarter.
- The current account registered its 21st consecutive quarterly surplus despite a drop of \$7.2 billion to \$37.6 billion or 2.9% of nominal GDP.
- The Canadian economy created nearly 195,000 net new jobs in the first 11 months of 2004. The unemployment rate increased to 7.3% in November from 7.1% in September and October.

## Real GDP growth at 3.2%

Real GDP rose 3.2% in the third quarter following a 3.9% gain in the second quarter. Domestic demand grew 3.3%, up from 2.1% in the previous quarter (Chart 1).

Note: Unless otherwise noted, data and per cent changes are quoted at annual rates. The cut-off date for data is noon, December 7, 2004.

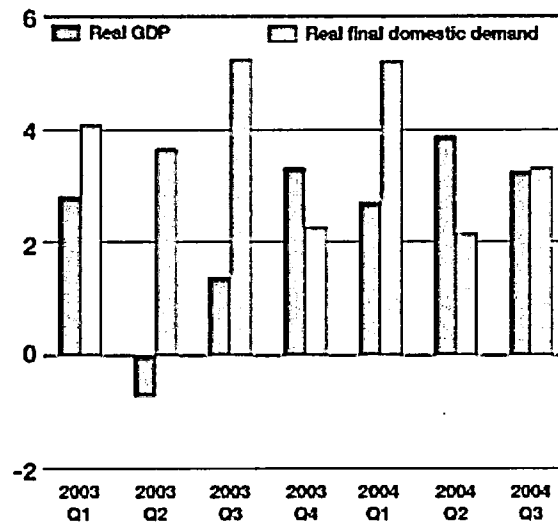
## Consumer spending growth rises

Real consumer expenditure grew 3.0% in the third quarter, up from 2.1% in the second. Spending growth was strong for durables—mainly for furniture and appliances, given a strong housing market—and for semi-durables such as

clothing and footwear. Services spending saw slightly lower growth than in the second quarter.

Personal income registered a healthy 3.5% gain in the third quarter following a 4.9% increase in the second. Labour income growth eased as employment and compensation per employee both increased more modestly than in the second quarter. Real personal disposable income growth moderated for the third consecutive quarter, rising 1.2%, while real personal disposable income per capita inched up 0.1%. For the first time, consumers did not save out of their disposable income after saving only 0.5% of it in the second quarter.

**Chart 1**  
**Growth in real GDP**  
**and real final domestic demand**  
per cent (annual rate)



**Main economic indicators**  
(per cent change at annual rates unless otherwise indicated)

	2002	2003	2004:Q1	2004:Q2	2004:Q3
<b>Real gross domestic product</b>	3.4	2.0	2.7	3.9	3.2
Final domestic demand	3.1	3.6	5.2	2.1	3.3
Government expenditure					
Goods and services	2.8	3.8	2.8	1.2	4.0
Gross fixed capital	9.1	6.8	5.3	-5.8	-2.4
Consumer expenditure	3.4	3.1	6.0	2.1	3.0
Residential investment	14.5	7.5	9.0	6.3	3.3
Business fixed investment	-4.0	3.2	3.5	3.7	5.2
Non-residential construction	-8.3	1.0	-3.5	0.9	0.6
Machinery and equipment	-1.2	4.5	8.2	5.5	8.2
Business inventory investment (\$ billion)	2.1	11.9	3.5	2.3	16.9
Exports	1.1	-2.4	4.0	18.0	-2.0
Imports	1.4	3.8	3.0	11.8	13.0
<b>Current account balance</b>					

(nominal \$ billion)	22.7	23.8	32.6	44.7	37.6	
(percentage of GDP)	2.0	2.0	2.6	3.5	2.9	
Nominal <u>personal income</u>	2.7	3.0	5.4	4.9	3.5	
Nominal personal disposable income	3.8	3.0	5.5	5.0	2.0	
Real personal disposable income	1.7	1.4	3.0	1.8	1.2	
Profits before taxes	8.6	10.0	34.4	33.0	8.5	
<b>Costs and prices (% , y/y)</b>						
GDP price deflator	1.0	3.2	1.7	3.6	3.9	
Consumer price index	2.2	2.8	0.9	2.2	2.0	2.3
CPI excluding eight most volatile items	2.4	2.2	1.3	1.7	1.7	1.4
Unit labour costs	0.5	1.5	1.4	1.4	1.2	
Wage settlements (total)	2.8	2.5	2.8	1.3	1.3	1.5
<b>Labour market</b>						
Unemployment rate (%)	7.7	7.6	7.4	7.2	7.1	7.3
Employment growth	2.2	2.2	1.1	2.0	1.3	0.3
<b>Financial markets (average)</b>						
Exchange rate (cents U.S.)	63.7	71.6	75.9	73.6	76.5	83.28
Prime interest rate (%)	4.2	4.7	4.2	3.8	3.8	4.25

Note: Real values are in chained 1997 dollars.

Sources: Statistics Canada, the Bank of Canada and Human Resources and Skills Deve Canada.

## Residential investment growth slows

Low interest rates continued to support housing activity. Residential investment increased 3.3% in the third quarter, down from 6.3% in the second and 9.0% in the first, the slowest growth rate since the second quarter of 2003. A slight increase in housing starts in the quarter supported modestly higher growth in new construction activity of 4.7% after a second-quarter gain of 3.9%. Renovations rose 12.3% following growth of 2.1% in the second quarter. House resales, however, fell in the third quarter, dropping real estate transfer costs 15.6% from their second-quarter level and moderating growth in residential investment.

## Business fixed investment strengthens

Business spending on plant and equipment grew 5.2% in the third quarter, the seventh consecutive increase. Investment in machinery and equipment increased 8.2%, up from the second-quarter pace (Chart 2). Spending soared on industrial machinery and information and communications technology equipment, especially computers and software, but dropped on non-automotive transportation equipment.

Non-residential construction inched higher for the second consecutive quarter, rising 0.6% after a gain of 0.9% in the second quarter. Increased spending on engineering projects was largely offset by reduced expenditures on building construction, such as office towers and shopping malls.

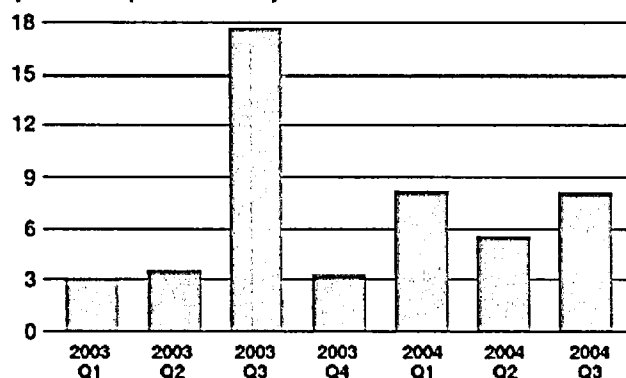
## Business inventories build up

Businesses increased inventories by \$16.9 billion in the third quarter following

an inventory investment of \$2.3 billion in the second quarter. The buildup was widespread across manufacturers, retailers and wholesalers, with much of it related to weak sales and exports of motor vehicles and increased production and imports. Nonetheless, the inventory-to-sales ratio remained near historical lows.

**Chart 2**  
**Growth in real machinery and equipment investment**

per cent (annual rate)



### Exports fall

Following an 18.0% surge in the second quarter, real exports dipped 2.0% in the third as international demand weakened, with notable drops in energy and automotive products. Exports of forestry products and machinery and equipment showed modest and no growth respectively following huge gains in both categories in the second quarter. Exports of services declined as exports of commercial services dropped 10.2%, a fifth consecutive quarterly decline.

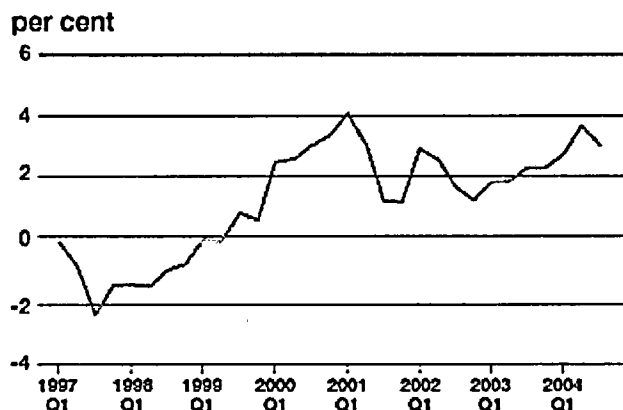
### Imports jump

Real imports jumped 13.0%. Imports grew strongly in all major categories, except energy and agricultural and fishing products. Imports of automotive products jumped 33.5%, the strongest increase since the second quarter of 2001. Reflecting strong investment growth, machinery and equipment imports increased 17.0%, the third consecutive double-digit gain.

### Current account surplus narrows

In the third quarter, the current account registered its 21st consecutive surplus, in contrast with deficits throughout most of the 1980s and 1990s. The surplus, however, fell to \$37.6 billion, or 2.9% of nominal GDP, from \$44.7 billion in the previous quarter (Chart 3). The goods trade surplus dropped \$7.2 billion as higher export prices and lower import prices moderated the negative impact of real trade movements. A deterioration in the investment income balance also contributed to the weaker current account, as dividends and retained earnings from direct investment abroad shrank more than dividends and retained earnings paid to non-residents.

**Chart 3**  
**Current account as a percentage**  
**of nominal GDP**



### Corporate profits continue to grow

Corporate profits rose 8.5% in the third quarter following four consecutive double-digit gains. Corporate profits as a share of GDP remained at 13.9%, well above the 10.1% historical average (Chart 4). Mining and oil and gas industries' profits rose with higher prices for their products. Manufacturers' profits, however, were restrained by weak exports.

### Consumer price inflation remains low

The increase in the GDP deflator, a comprehensive measure of domestic prices, slowed to 3.7% in the third quarter from a 5.9% rise in the second to stand 3.9% higher than a year earlier.

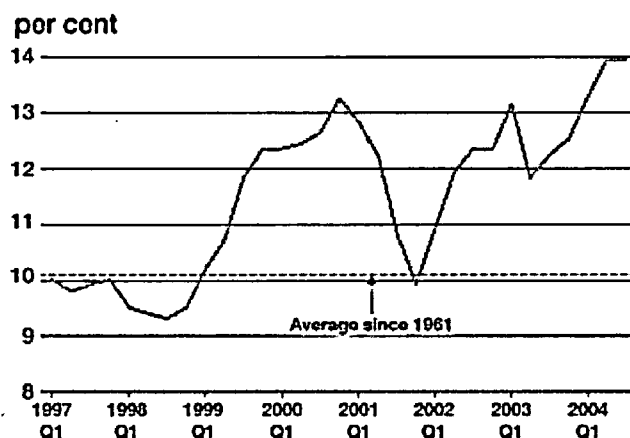
Year-over-year consumer price inflation stood at 2.3% in October, up from 1.8% in September as food and energy prices rose. However, at 1.4% in October, core CPI inflation, which excludes the eight most volatile items, sat below the 2% mid-point of the 1% to 3% target band.

### Employment grows

Employment grew 1.3% in the third quarter. In the first 11 months of 2004 the Canadian economy created nearly 195,000 net new jobs. The participation rate sat at 67.5% in November, up from October but still below its record high of 67.7% set in December 2003. The unemployment rate increased to 7.3% in November from 7.1% in September and October, when it hit its lowest level since mid-2001.

Hourly labour productivity dropped 4.6% in the third quarter, as strong growth in hours worked surpassed the gain in output. Labour costs per unit of output rose 0.4% to stand 1.2% higher than a year earlier.

**Chart 4**  
**Profits before taxes as a share**  
**of nominal GDP**



### Bank of Canada holds policy rate steady

The Canadian dollar climbed to its highest value in nearly 13 years, closing at 85.04 cents U.S. on November 26 before easing back to 83.28 cents U.S. on December 6. On December 7, the Bank of Canada maintained its key policy rate—the target for the overnight rate—at 2.50 per cent. This followed 25-basis-point increases in both September and October. The Bank stated that "if exchange rates were to persist at current levels, and if all other economic and financial factors were to remain unchanged, there would be a dampening effect on aggregate demand."

With the U.S. Federal Reserve having raised its target rate 25 basis points in each of August, September and November, the gap between Canadian and U.S. short-term interest rates has narrowed to under 30 basis points from over 80 basis points in October.

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HotLinks  
Legislation



## International Issues

International Activities

Tax Treaties

- [General](#) - [G-7 Statements](#) - [WTO Papers](#) - [Related Links](#) -

Canada takes part in a number of international trade, financial and economic organizations, such as the [World Bank](#), the [World Trade Organization](#), the [International Monetary Fund](#), the [Organisation for Economic Co-operation and Development](#), the [Financial Action Task Force on Money Laundering](#) and the [Financial Stability Forum](#). Canada also takes part in the [G-7](#) and the [G-20](#). Finance Canada has a lead role in managing our country's activities in these institutions.

The Department also plays an important role in negotiating our trade arrangements with other nations and monitoring how those arrangements serve Canada's interests.

➤ [Post -September 11th: initiatives in the financial sector.](#)

### General

- [Report on Operations under the Bretton Woods and Related Agreements Act: annual.](#)
- [Report on Operations under the European Bank for Reconstruction and Development Agreement Act: annual.](#)
- [Status of International Tax Treaty Negotiations.](#)

### World Trade Organization Papers

- [Anti-Dumping Information Paper.](#)  
(June 2001; posted October 2001).
- [Discussion Paper on Emergency Safeguard Mechanism.](#)  
(June 2001; posted July 24, 2001).
- [Discussion Paper on Safeguards.](#)  
(Preparations for Multilateral Trade Negotiations)
- [Subsidies and Countervailing Measures - Information Paper](#)  
(October 2001).

### Related Links

- [Canadian Economy Online.](#)
- [Financial Action Task Force on Money Laundering Consultations - Review](#)

of the FATF 40 Recommendations.

➤ International Trade and Finance (HotLinks).

➤ Joint Statement of NAFTA Governments.

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Last Updated: 2005-01-17



Important Notices

measures have been designed to build on actions taken in previous budgets, while setting the stage for further improvements as the Government can afford them.

## **1 Investing in People**

As baby boomers prepare to retire in large numbers during the coming years, it is clear that the number of working Canadians will decline in proportion to the population as a whole. This means that, to secure future growth in living standards, Canada must have a highly skilled and adaptable labour force that can respond to and drive the economy of tomorrow.

This challenge demands new approaches to strengthening opportunities for learning and skills at all stages of life. Budget 2005 makes several key investments aimed at meeting this challenge:

- \$5 billion over five years to build the framework for a new shared Early Learning and Child Care initiative in collaboration with the provinces and territories.
- \$120 million over five years to improve the Special Education Program for First Nations children on reserve.
- \$398 million over five years to make services more responsive to the needs of immigrants, and enhance settlement and integration programs to help newcomers to Canada become fully contributing members of the workforce more quickly.
- \$125 million over the next three years to move forward on a Workplace Skills Strategy to help workers keep pace with changing requirements.
- \$30 million over three years to enhance the capacity of the National Literacy Secretariat to foster awareness of literacy issues and to promote learning in the workplace.

## **2 Investing in Ideas and Enabling Technologies**

Research is crucial to improving our environment, advancing our health care system and making Canadian firms more productive and competitive. That is why the Government of Canada will continue to do its part—along with universities and the private sector—to promote research and new technologies.

Budget 2005 provides \$810 million in strategic investments in ideas and enabling technologies over the next five years. These include:

- \$375 million over five years for the three federal granting councils—the Canadian Institutes of Health Research, the Natural Sciences and Engineering Research Council of Canada, and the Social Sciences and Humanities Research Council of Canada.
- Increasing funding to universities and research hospitals for the indirect costs of federally sponsored research, bringing the total to \$260 million per year from \$245 million starting in 2005–06.
- \$125 million over five years for world-leading particle physics research at the Tri-University Meson Facility (TRIUMF) science facility in British Columbia.