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Chair

Mr. James Bezan

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• (1535)

[English]

The Chair (Mr. James Bezan (Selkirk—Interlake, CPC)): I will call this meeting to order.

Today we're going to be studying the WTO and the recent announcement by the minister on article XXVIII and the milk protein concentrates.

We have Steve Verheul, our chief trade negotiator at the WTO, appearing before us. We welcome Steve to our committee. He has been here before.

I'll turn it over to you, Steve. You have about 10 minutes, if you need that, to make your presentation.

Mr. Steve Verheul (Chief Agriculture Negotiator, Negotiations and Multilateral Trade Policy Directorate, Department of Agriculture and Agri-Food): Thank you very much.

Good afternoon, everyone. My name is Steve Verheul. I'm Canada's chief trade negotiator for agriculture. I'd like to thank the committee for asking me to appear here today to talk about the status of the WTO negotiations.

I'm going to begin my remarks by reviewing some of the recent developments at the WTO and what they mean for Canada in particular.

As you all know, the WTO negotiations are the key forum through which Canada is working to expand opportunities and achieve a fairer international trading environment for Canadian agriculture.

At the WTO, we have been working to achieve the elimination of all forms of export subsidies, the substantial reduction of trade-distorting domestic support, and real and significant improvements to market access. We've also been strongly defending the interests of our supply-managed producers.

The negotiations have been ongoing since November 2001. Although various deadlines have been set, not very many of them have been met. The most significant developments in the negotiations were a framework for agriculture, which was agreed to in July 2004, and in December 2005, at the Hong Kong ministerial meeting, we agreed, among other things, to the elimination of export subsidies by the end of 2013.

As the negotiations have progressed, they have become increasingly difficult. In July of last year, the director general of the WTO, Pascal Lamy, announced that the negotiations had reached an impasse on the issue of market access for agricultural and non-

agricultural products and on agricultural domestic support. As a result, the negotiations were suspended at that time.

In November, following a period of increased informal discussion among WTO members on the key stumbling blocks in the negotiations, the WTO director general obtained support from the WTO membership for technical discussions on the various issues at play to resume across all areas of the negotiations, including agriculture.

Earlier this year, on January 27, Minister Strahl and Minister Emerson joined ministers from about 30 other WTO members in Davos, Switzerland, for an informal ministerial meeting on the WTO negotiations. Ministers at Davos clearly expressed renewed commitment to put the negotiations back on track.

This was later followed by an announcement from the director general at a meeting of the trade negotiations committee on February 7 that the negotiations were to be fully re-engaged.

While negotiating activity has increased since that time, the discussions are still largely informal. There has been particular attention focused on the U.S. and on Europe, who have been engaged in detailed technical discussions over the last several weeks to try to narrow the differences between them.

It is clear to Canada and to others that key WTO members, particularly the U.S., Europe, and some of the more advanced developing countries, will need to significantly narrow differences in their negotiating positions and show movement on the issues for real and substantial progress to be possible. It will be important to achieve such progress within the next few months or we're going to face a much longer delay in the negotiations.

Progress is needed on three key issues if the negotiations are to move forward: the U.S. needs to go further on both cuts and disciplines to trade-distorting domestic support; the European Union needs to show more flexibility on market access; and developing countries need to show more openness both on market access for agricultural products and for non-agricultural products.

For our part, Canada is continuing to work intensively in Geneva and elsewhere with a range of other WTO members to exchange ideas and advance technical work with a view to resolving the outstanding issues. We continue to be among the most active countries involved in the negotiations.

Looking forward, the success of the Doha Round will clearly remain a key priority for Canada. The WTO remains the cornerstone of our international trade strategy for Canadian agriculture. Our efforts at the WTO agriculture negotiations and through other trade initiatives will remain geared toward ensuring that we have an effective overall international trade policy strategy for Canadian agriculture, including both supply-managed products and export-oriented interests. Continued, active engagement with the provinces and the full range of our agriculture industry stakeholders will remain central to our efforts.

I also understand you may have some questions regarding milk protein concentrates. In the second hour of my appearance I will be joined by officials from the Department of Finance, the Department of Foreign Affairs and International Trade, Canada Border Services Agency, and the Canadian Food Inspection Agency, and we will be happy to deal with your questions on those issues at that time.

So with those opening remarks, I would be pleased to take your questions on the negotiations.

The Chair: Thank you, Mr. Verheul.

You understand that in the first hour we are talking strictly about the WTO. We're going to deal with milk protein concentrates in the second hour.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): Can I interrupt for one second? I wanted to make the opposition members aware that there's a briefing tomorrow on the OUI-GROU program and strychnine. I think they've been made aware of that, but I just wanted to remind them, so they're aware of it.

The Chair: Take note of that.

With that, I turn it over to Mr. Steckle.

Mr. Paul Steckle (Huron—Bruce, Lib.): Thank you, Mr. Verheul, for appearing today.

You've been before this committee numbers of times and always at a time when perhaps we were moving forward with some optimism that an agreement could be achieved. We're in a situation now where we believe talks may reconvene. I'm wondering, do you share the optimism of the other partners in this partnership? What's your sense of where we're going on this? I say that because of the fact that there have been bilateral communities of people meeting and bilateral agreements trying to be struck. Is that in some way going to be counterproductive in terms of us moving forward under the Doha Round?

• (1540)

Mr. Steve Verheul: Yes, I think we're certainly in a period now where the next few months are going to make the difference as to whether we can move this forward or not. There have been a lot of discussions between the U.S. and Europe at a very detailed technical level. Our understanding is that they are making progress. They're making progress on issues that are important to each of them, which means it's of limited value to the rest of us. They clearly need to narrow the gaps between themselves, but there would be very strong resistance to having that imposed on the rest of the membership.

We certainly need them to try to make some more advances, and that's really going to be the determining factor as to whether we can

move or not. But then we need to be involved in a much broader process, and we're not at that point yet. All the discussions now are very informal and, as you say, on a bilateral basis. So I think there's certainly potential there, but the biggest blockage, I would say, is probably the question of whether the U.S. can move on cutting its subsidies more than it has offered to, to date.

Mr. Paul Steckle: Given the circumstances of the recent past, Mr. Emerson's comments in terms of the supply-managed sector, messages whether real or otherwise are sometimes misinterpreted, but messages are given. I'm just wondering, are these kinds of messages, the messages from the current government in terms of its direction on the Wheat Board, positive messages or are they negative messages? Obviously, we believe these are sectors that we have protected with a great deal of vigour over the history of government for many years. Where do you see us going, and where does that leave you as our negotiator in terms of a solid premise from which to negotiate, knowing that you have the support of government, the support of this committee, and the support of the industry back home in terms of supporting those measures? I'm just wondering whether you feel as positive today moving forward in your negotiating role as you did two years ago.

Mr. Steve Verheul: We certainly bring a fairly difficult negotiating position to the WTO. That has always been the case. We have very different interests in our agriculture sector in Canada, and the export-oriented part of our sector is clearly interested in more access, getting rid of subsidies to the extent we can, whereas supply management is clearly interested in maintaining border protection to the extent that's possible. We've got a difficult challenge ahead of us with respect to that.

On the Wheat Board, our position hasn't changed in the negotiations. We continue to say this is not an issue that should be decided by the WTO. It should be decided by Canadians themselves rather than have the WTO impose some kind of solution.

On the issue of market access with respect to supply-managed products, we've taken a very clear and very firm line that we're not prepared to accept tariff reductions or tariff quota expansion on supply-managed products. That has clearly positioned us in a somewhat different place than other countries. All other countries have agreed to open up market access on all products. So we have an uphill fight there as well.

Mr. Paul Steckle: Engaging in the debate on article XXVIII, how does that impact our position in terms of us having a voice going forward, because now we have countries who obviously are going to take issue with that? Has that diminished? Is it partially hindering us, or hindering you, particularly, as our negotiator? Where does that place you? Obviously this is something we've talked about for a long time, and it has now been acted upon, at least up front. We don't know whether that has even gone to the WTO yet. Probably not.

How does that impact your work?

Mr. Steve Verheul: To date, I can't say I've seen any real impact. I was in Geneva last week—I got home on the weekend—and it was raised by a number of countries with me, some of them expressing concern that it would affect their interests, but I can't say I've seen any linkage being made to the negotiations, at least until this stage.

Mr. Paul Steckle: If the negotiations were to break down totally and we were to be starting from a different vantage point, can anyone imagine the economic impact to Canada? Is this something anyone has put a dollar value on? And if we simply break down and don't restart the negotiations, and if they should fail for a number of years, would we be better off going forward with the current agreement, which is in an expired mode, but continuing under those terms? Would we be better served under the current terms than a bad deal going forward?

• (1545)

Mr. Steve Verheul: I think that's really going to depend on where we manage to come out. I think what's under discussion right now are some fairly important moves forward. Certainly the elimination of export subsidies is something that Canada has sought for a long, long time. If we can get some real, effective cuts in domestic subsidies, particularly those being provided by our neighbour to the south, then that will make a difference to us, and it will allow our producers to compete on a fair basis. Certainly, many of our commodities would like the opportunity to have better access to foreign markets, and if we could get some of that access improved, then we do stand to make significant gains.

The challenge is going to be that when that access opens up, it's going to be available to all countries, so we're going to have to compete for that access, and that's going to determine how much of an advantage it will really be to us. It's going to be up to the industry to take advantage of the changes that can be made.

The Chair: Thank you, Mr. Steckle.

Mr. Bellavance, seven minutes, please.

[*Translation*]

Mr. André Bellavance (Richmond—Arthabaska, BQ): Thank you, Mr. Chair.

Thank you for being here, Mr. Verheul. You are at the very heart of international negotiations, and you more often than we committee members are in the countries where all these negotiations are taking place. It is important for us, as well as for farmers, to have your viewpoint and to know exactly what is going on in these negotiations.

The Doha Round, which began in 2001, was devoted to developing countries. Since the start of these negotiations, I note that those countries do not seem to have much of a voice in the matter. It's currently more a major battle between the European Union and the United States.

First, I'd like you to tell me whether I am right. The European Union and the United States obviously resumed negotiations in February. As a result, they have agreed to restart discussions.

Do you think that the decision made with regard to the Doha Round to benefit developing countries is still on the table now? Or are we witnessing the appearance of a completely different scenario?

[*English*]

Mr. Steve Verheul: Certainly, as you say, the major objective of the Doha Round was to improve the opportunities for developing countries in the international marketplace, and I think that while the current focus has been on discussions between the U.S. and Europe, the issue of development, improving the situation of developing countries, is still front and centre in the negotiations.

I think part of the reason so much of the focus is on the U.S. and Europe is that, in the case of the U.S., developing countries very much want to see some real cuts to the U.S. subsidies to give them a better chance to compete, and with Europe, they want to get some real access into the European market. It's 25 countries and growing, so they want to get some access to what is a very wealthy market from a development perspective.

So those issues are there, but the pressure is really on the U.S. and Europe as the two biggest players to make some real moves, and then we'll see whether they're taking the development issue seriously or not. For our part, we've been aligning ourselves very closely with developing countries and spending a lot of time working with them, because we have many similar objectives. We want to get subsidies in the U.S. down. We want to improve market access to a lot of different countries. So we've been conducting a lot of joint analysis with developing countries and doing a lot of work with them.

[*Translation*]

Mr. André Bellavance: In the United States, there have obviously been some changes: the Democrats have taken control. Have you heard anything about what might happen? Without the United States, we won't be moving forward in these negotiations.

There's been a lot of talk about fast-tracking. Would the Democrats, who historically are usually a little more protectionist than the Republicans, let President Bush fast-track this?

The new Farm Bill has also just been announced. This isn't very clear. Would you have any more information? We hear about reduced subsidies. Will there nevertheless be excessive use of the green box?

How is that lining up, from what you've heard in the United States? In the context of these negotiations, we can't disregard what's going on there right now.

• (1550)

[*English*]

Mr. Steve Verheul: Yes, as you imply, the focus now is really on the U.S., and what happens in the U.S. will determine whether or not we move forward.

The trade promotion authority, or fast-track, is going to be essential, and if the U.S. doesn't obtain fast-track approval, then there's really no basis to negotiate.

The problem we're experiencing right now is that we're trying to pull together a package that the U.S. administration could then take to Congress. But we're not really sure what Congress might do with it and want to add to it, in order to get the approval for the trade promotion authority. So there's an issue of whether the administration can obtain authority, and there's also a timing issue as to how much detail we can put into any kind of package before it goes to Congress.

More recently, there is more potential for the U.S. to obtain that approval from Congress, partly because they're looking at a broader package than just the trade promotion authority on the Doha negotiations. They're also talking about including things, such as trade adjustment and assistance, as part of a broader package. So that may appeal to some of the Democrats and make this a little easier.

Your comment on the farm bill is also a very interesting case of timing right now, because the U.S. is in the midst of starting to design their new farm bill while the negotiations are going on. Many of us in the negotiations are clearly trying to constrain them in what they can do when designing that farm bill.

We saw some proposals from the U.S. administration a couple of weeks ago. Our view is they don't go nearly far enough in terms of what will be needed to conclude the negotiations.

There's going to be a difficult debate within Congress about what that farm bill should look like, but the connection with the negotiations is going to be very direct.

[*Translation*]

Mr. André Bellavance: What is your perception of Canada's role in everything that's currently taking place? We were talking about those two major players, the European Union and the United States.

You've always mentioned that it's been tougher for you since that motion was unanimously passed by the House of Commons on November 22, 2005. How have you been feeling since then? Do you keep clear of the negotiations?

I read articles in newspapers to which you've granted interviews. You have a reputation for being very frank. That's all to your credit, except that we claim it's important to defend the supply management system, of course. According to a Léger Marketing survey, 85% of Canadians think that as well, whether they're farmers or not.

Are you a participant in those negotiations, or are you watching what's currently going on from the sidelines? How do you view matters in relation to the negotiations that are resuming?

[*English*]

Mr. Steve Verheul: Yes, that's certainly an important question in the negotiations right now. Canada has been probably the most active player in the negotiations in terms of providing new creative ideas for trying to move the negotiations forward and advancing our interests.

When it comes to the issue of sensitive products, we have taken a very hard line and said that consistent with the motion, we will not be accepting or talking about tariff reductions or tariff quota expansion for supply-managed products.

That has meant that we aren't in a position to engage in the design of the approach on sensitive products that others are engaging in. We're certainly aware that the U.S. and Europe have been talking primarily about the treatment of sensitive products. That's most of what they've been discussing over the last several weeks. So they are starting to design an approach on sensitive products, and there are also discussions taking place in various other forums.

We're a bit limited in what we can do in terms of having those discussions. The U.S. is talking individually to various countries now. We're likely to get a request to meet with the U.S. in the next month or so. They will be coming to us and saying, what are you prepared to offer us on dairy, poultry, and eggs, because the rest of our market is open to them under NAFTA. At that time, we will be saying that we're not prepared to do anything.

Obviously that's going to bring some kind of reaction. It's also going to mean that we're not going to be able to have a discussion about where we might be able to provide access that won't cause any kind of impact, which would be the case with respect to some supply-managed commodities. So we won't be having that kind of discussion.

I think we have a very strong position in support of supply management, but we run the risk of the discussions among other members going in a different direction.

● (1555)

The Chair: I just want to follow up, Mr. Verheul, one of the quick questions Mr. Bellavance raised, and that is on the issue of timeline of the U.S. farm bill and the WTO negotiations. Which is more advantageous, to get WTO done before the farm bill comes down the pipe or to get the farm bill out of the way and then we'll know what we're dealing with in the ongoing WTO negotiations?

Mr. Steve Verheul: I think the most commonly held view is that it would be better to get the WTO negotiations done first, or at least get the shape of an agreement made pretty clear before the farm bill is finished. The U.S. administration has told us they can always go back and make changes to the farm bill afterwards, but in our estimation it would be very politically difficult to go back and change a farm bill, and in all likelihood make it less generous, after they've already designed it.

So our preference, if the timing could be made to work, would be to get the negotiations advanced further than the farm bill.

The Chair: Mr. Gourde, you have the floor.

[*Translation*]

Mr. Jacques Gourde (Lotbinière—Chutes-de-la-Chaudière, CPC): First, I'd like to congratulate Steve Verheul for his professionalism. I had the opportunity to work with him in Geneva over one weekend, and I enjoyed the experience.

Mr. Verheul, in the global commodities market, a limited percentage of commodities is traded internationally, but a large proportion of that percentage comes from Canada.

There are 150 countries in the WTO, and we are one of those that exports the most products. In terms of political weight, are we at an advantage or disadvantage relative to other countries as a result of the fact that we are an exporter country?

[English]

Mr. Steve Verheul: I think Canada is one of the leading exporting countries when it comes to agriculture, and we're certainly well known for that. We're generally either the third or fourth largest exporter of all the WTO members. So we have a strong role to play there, and we are a part of the Cairns Group, which is a group of exporting countries. That's given us a certain amount of influence. It also gives a certain amount of expectation on the part of other countries; they do see us coming to the table with both export interests and some defensive interests, which obviously creates questions from time to time. But we're hardly unique in that: the U.S. has its sensitivities and Europe has its sensitivities, so this is an issue we're always going to be dealing with.

[Translation]

Mr. Jacques Gourde: With respect to potential new markets for Canada, disregarding the United States, with which we have very significant trading relations, which regions of the world should we be concentrating on more?

[English]

Mr. Steve Verheul: I don't think we're in a much different position from most of the countries around the world. We see the emerging markets in developing countries as being where the real growth is going to take place. Certainly China is going to be important; India is important, as is Brazil. The emerging economies in the developing world are where most of the new markets are going to be developed, and that's where we're focusing, as well as on other countries in Asia.

The European Union is of interest, but it's a much more difficult market to get into, as they have various means of maintaining and protecting their own market. It's a rich market where we need to expand our access, but it's always a more difficult fight.

But overall, similar to the U.S., I'd say that our biggest interest is in the emerging developing economies.

[Translation]

Mr. Jacques Gourde: The United States has stepped up its bilateral agreements with other countries. Canada's strategy is less focused on that approach.

In future, if the WTO negotiations don't look promising, will we have to consider bilateral agreements in order to protect our trade?

[English]

Mr. Steve Verheul: Yes, I think we certainly have heard from industry and various others that we should be having a more ambitious bilateral negotiating agenda, and we have been pursuing that.

We've been advancing bilateral negotiations with Korea, as you know. We've also been negotiating with a group of Central American countries and with Singapore, as well as with the European free trade area, which includes a number of northern European countries. All of those negotiations are advancing at the moment. We're also hoping to initiate new negotiations with the Dominican Republic, with a group of Caribbean countries, and with some of the Andean pact countries in Latin American, particularly Peru and Colombia.

So we are trying to have a much more ambitious bilateral agenda, and we see that as complementary to our efforts at the WTO, not in opposition to them.

• (1600)

The Chair: Mr. Gourde.

[Translation]

Mr. Jacques Gourde: Canada's position at the WTO seems clear enough for us to be able to adopt a solid position as a negotiator. In the next few years, is there a risk that all the other countries negotiating at that table may change positions, or do they seem to be relatively firm?

[English]

Mr. Steve Verheul: I think that certainly the position we've been carrying in the negotiations has been quite consistent over the years. Other countries have changed. I think the biggest factor, though, probably even bigger than shifting country positions, is the notion of the groups that are now negotiating at the WTO. We have the G-10, the G-20, the G-33, and the African group. We've got negotiation among a series of groups, which is an important change from the way things were done in the past when we had a handful of countries doing the negotiations. We now have a series of groups, so that makes it more difficult in some ways to have a unique position as Canada has, and to try to advance that in the negotiations.

[Translation]

Mr. Jacques Gourde: You nearly took the words out of my mouth, but I'm nevertheless going to ask you which countries would be likely to align themselves naturally with our position.

[English]

Mr. Steve Verheul: What we've been trying to do is really work informally with a lot of different countries and different groups to try to advance our objectives. We've had particular success in doing that with the so-called G-20. That's the group led by Brazil and China and India. That group has probably really become the most powerful group in the negotiations outside of the U.S. and Europe. In fact, many of the negotiations are between the U.S., Europe, and this G-20 group.

We have formed particularly strong relationships with Brazil, and we have been negotiating common positions on various issues with Brazil. We've also worked fairly closely with India on a number of issues, and with other developing countries as well. We're trying to influence various groups. We've also worked with countries in the so-called G-10, which is Japan and Switzerland and others. We have very close relationships there and some issues in common. We've been trying to work with the various groups that are involved and trying to feed ideas in and advance our objectives in that way.

The Chair: You have time for just a short question.

[Translation]

Mr. Jacques Gourde: Do you think the negotiations will continue for two, five or 10 years before a global consensus is eventually achieved, or that they'll be ongoing?

[English]

Mr. Steve Verheul: I hope it doesn't go on too long. It's been going on for a long time already, and the prospect of it going on for years and years to come doesn't really enthuse me.

I think there's going to be a strong effort to try to break through it this spring and to see if we can put together a fairly ambitious agreement. The aim would be to try to finish it by the end of the year and probably implement it within a year after that. That's fairly ambitious, but it can be done. Otherwise, I think we are into a longer, drawn-out negotiation, and that would take a number of years. If we do conclude within the next year or so, I think there won't be a lot of interest in jumping right back into another full-scale negotiation. It's very complicated, it takes a long time, and progress is difficult every step of the way.

The Chair: Thank you, Mr. Gourde.

Mr. Easter, you have five minutes.

Hon. Wayne Easter (Malpeque, Lib.): Thanks, Mr. Chair.

In terms of ambition, Steve, is there any thought to bringing in labour rates and health and safety standards for workers within countries? If you look at what's happening in the auto industry right now, that's one of the reasons our auto industry is going down.

With regard to environmental standards, we have farm environmental plans in this country, but in Brazil or Argentina or China, theirs are much lower. We're competing against countries under so-called free trade rules, or WTO rules, compared to which we are at a very distinct disadvantage.

So in terms of ambition, is there any thought of bringing up those factors and putting them on the table? There wasn't for a while, but is there any thought of putting those factors on the table? I think they're crucial to this country as we move ahead, especially labour and environment, not only for agriculture but for the industrial manufacturing base as well.

• (1605)

Mr. Steve Verheul: There certainly was some discussion of those issues when the agenda for the negotiations was first agreed to in Doha in 2001. At that time, at the end of the day, it was decided that neither labour nor environmental standards issues would be included as part of the negotiations, so that has remained the same to this point. That really established a mandate for all countries for the negotiations.

This is part of the debate in the U.S. in relation to trade promotion authority. Many in the U.S. want the U.S. to adopt labour and environmental standards in their bilateral agreements, but they recognize it's not going to be possible at the WTO.

One area that we can get at least some of the environmental issues is with respect to the green box provisions of the agreement on agriculture, which we are trying to clarify and in some cases tighten in order that environmental programs truly do benefit the environment.

Hon. Wayne Easter: I actually think those two sides of the equation now, as we're into more and more the environmental factors, are perhaps every bit as important to agriculture as they are

to other industries. We didn't see them that way, I don't think, four or five years ago, but they certainly are today.

A number of us from both government sides—not on this committee but the Canada-U.S. Parliamentary Association—were in Washington two weeks ago. There's no question in my mind, having spent about three hours with the chair of the House Agriculture Committee, that the members in the House are far from where Secretary Johanns is. I really think there's a willingness on the administration's side to try to cut back on the subsidization. There is certainly not on the political arm in the House. That's a problem for us.

Given the proposals that were on the table, I think the discussion in Hong Kong was perhaps the farthest we were ahead to getting an agreement. I think we fell back since that time. Then there was strong pressure for us to basically go to tariff reductions where we favoured tariff quota increases. In negotiations, especially with the United States, and they're our major competitor, we met our tariff quota increases. We lived by the previous agreement; the United States didn't. Yet they want us to start at where we now are instead of their coming up to where they're supposed to be.

Where are we on that side of the discussion, or did the motion in the House completely put that off the table? I mean, we might as well be frank about it, because if it did, it did. Where are we at on that area?

Mr. Steve Verheul: There are still discussions ongoing that don't directly relate to the motion in some ways. There are discussions about how you administer tariff quotas—whether you make it open to all—and certain practices that countries have adopted that minimize imports under specific quotas. We're trying to come up with rules on that. Much of that relates to what's already been agreed in the past and trying to improve the rules around that. So those discussions are ongoing.

On the issue of Canada having fulfilled its commitments on tariff quotas, I think it's clear that at the end of the last negotiation none of us really followed the guidelines that were set out at that time. There were many dairy products for which we have not provided access, and certainly not the access that we were supposed to provide at that time, just as the U.S., the Europeans, and others have not. We're not boy scouts in this, but neither is anybody else. It's all about trying to find a way to get to some rules, so that we are all required to play the game the same way.

The Chair: Thank you.

Hon. Wayne Easter: Can I have a quick one?

The Chair: Make it short.

Hon. Wayne Easter: The fact of the matter is, I think we provide greater access into our markets, and we're accused of being protectionist, than the Americans allow into theirs, and they're believed to be free traders. Is that not correct?

Mr. Steve Verheul: In the case of dairy, we provide more access to dairy, or at least we did in recent years, than the U.S. provides to its dairy market.

Hon. Wayne Easter: Thank you.

Thank you, Mr. Chair.

The Chair: Mr. Bellavance.

[Translation]

Mr. André Bellavance: You revealed that, for lack of support, the proposal that Canada had previously defended, that, before any other concession, all countries should be required to provide real access to their markets equivalent to five percent of domestic consumption, was discarded. With the resumption of negotiations, could we resume that position? Do you intend to do that?

•(1610)

[English]

Mr. Steve Verheul: That's certainly the kind of position that I think we would have some room to try to advance in the negotiations. It's not a position that we could take because of the position, which is consistent with the motion. If we took a position that countries should require real access, up to 5% of domestic consumption, we don't meet that now. That would require a tariff quota expansion for us, particularly in dairy, to a significant extent. So that's not something we could promote under our current position.

[Translation]

Mr. André Bellavance: In an interview you gave to the weekly *La Terre de chez nous* on February 15, you said this:

The elimination of export subsidies by 2013 and the reduction of domestic support by approximately half will put pressure on supply management in the dairy industry, but that is manageable. It's market access that is the sore point. Canada needs eight percent of tariff lines in order to include all products under supply management (milk, poultry, eggs) in the "sensitive products" category. However, few countries are talking about going beyond five percent. If that were to happen, Canada would have some very hard arbitration to do to select the products that it recognizes as sensitive.

I'd like you to tell us exactly what you mean by that.

[English]

Mr. Steve Verheul: Yes, certainly a number of elements in the negotiations are becoming clearer, at least among a number of members. On export subsidies, we've agreed to eliminate all export subsidies, as have all other members. That will have some impact on our dairy sector, but it's generally viewed as something that can be managed. All of our dairy exports right now, or almost all, benefit from export subsidies.

On the domestic support reductions we will have to face, along with others, our reductions will be considerably less than the reductions in the U.S. or the reductions in Europe or Japan. And that's because of a Canadian idea that the reductions should be different and much greater for countries that are larger players. That will have some pressure put on our current pricing system because we will probably have to make some adjustments to that in order to meet the obligations that we would expect on the domestic support disciplines.

Finally, on the issue of sensitive products and how many are going to be allowed, the U.S. and Europe, including in their most recent discussions, have been talking about 4% or 5%. And there's some suggestion that Europe could agree to 4%. That's not something that other countries—not just us, but others—would find acceptable. Certainly Norway needs significantly more than 4%; Japan needs

more than 4%; Switzerland needs more than 4%. So we have been having some discussions with these countries about that challenge that we're going to face in getting the right number of sensitive products.

[Translation]

Mr. André Bellavance: I imagine that each of the 150 countries, including Canada wants to protect its sensitive products. In our case, it's supply management. As you mentioned earlier, the number of sensitive products and the treatment reserved for them are fundamentally important. You said earlier that Canada did not approve the four or five products that the United States wants to include.

Lastly, I'd like you to give us your impression of the positions of the major players. I don't want to talk just about the United States and the European Union, but also about Brazil and even India. What's your read on the situation?

[English]

Mr. Steve Verheul: When it comes to the number of sensitive products, the Brazilians, the Indians, the Chinese, those major countries, have been saying that sensitive products should not be more than 1% of tariff lines—so a much lower number. My own personal view is that they could agree to 4% or 5%. So in other words, most of the membership could agree to 4% or 5%, with the exception of the group of countries I mentioned: Canada, Norway, Switzerland, Japan, and a couple of others.

[Translation]

The Chair: Thank you, Mr. Bellavance.

Mr. Anderson.

•(1615)

[English]

Mr. David Anderson: Thank you, Mr. Chair.

I just wanted to make an observation first. Mr. Steckle had talked about the previous government's support for the Canadian Wheat Board. You mentioned that the export subsidies were going to be done away with. I believe they had negotiated away the export credit programs and the initial price guarantees that were provided by the government. So those two things alone would have made substantial changes to that system.

I want to talk a bit about the Americans and the Europeans working together. In Uruguay they were able to basically come up with an agreement that led to the completion of that round. You talked a bit about that, but I'm just wondering if that type of agreement is likely, in your mind, this time. If it is, there are two other things I'd like to know. What role are the developing countries going to be able to play in that? And secondly, what role is that second level of countries going to be able to play as well? What are the dynamics there?

Mr. Steve Verheul: A lot of us are certainly concerned about the U.S. and Europe talking and trying to narrow the gaps between them. We realize it's necessary and we want them to do it, but at the same time, we're concerned about what they might come up with. Unlike the last round, though, I don't think there's a possibility for the U.S. and Europe to agree on something and then simply impose it on the rest of the membership.

The power relationship among WTO members has shifted considerably, particularly with developing countries. If the U.S. and Europe come up with something, but it's opposed by some of the other major players, such as Brazil, India, China, and some of the key developing countries, then it's really not going to fly.

I think the U.S. and Europe are conscious of this. I think if they narrow the gap, they're going to start to try to sell whatever they put together more broadly. They'll gradually go to more and more countries to try to convince them of the merits of what they've come up with. The developing world will be the biggest challenge they'll have in that regard.

Part of our strategy in response to this is to work very closely with developing countries, as I mentioned. We're providing a lot of analysis to them, including Brazil and India specifically, on the impact we would see on offers put forward by the U.S. and by Europe. I think we've been of some help in advising them on whether or not an offer put forward has any value to it. To be honest, particularly on the domestic support side, we haven't seen offers that have been all that valuable up to this point.

Mr. David Anderson: It seemed to be clear in Geneva last summer that if they don't have a breakthrough, it's not going to happen. They're the ones who need to lead it.

I have a question. If we don't get an agreement by mid-summer or late summer, what's the impact going to be? Is this thing going to languish on for another two or three years, or is it effectively going to grind to a halt and we'll have to live without an agreement? If that's so, what will the impact be on our country?

Mr. Steve Verheul: If we fail to make any real progress over the summer, I don't think the negotiations would be dropped entirely. I think there would be an effort to try to keep them going at some very minimal level until we could re-engage, most likely with a new U.S. administration. If they're elected in 2008, it would probably take them half a year to get all the right people in place. Then we might have a chance of continuing the negotiations.

But after that length of time, we wouldn't really be sure where we'd be starting from. Things would have changed in many respects. The conventional wisdom is that we would continue the negotiations and pick it up again at a later date. To this point, we've never had a negotiating round completely fail. Having a negotiating round directed towards developing countries fail would send the world a signal that would not be helpful.

On the second part of your question, if the negotiations did fail, then clearly we'd continue to move forward on our bilateral agreements. We can get some improvements on a lot of those.

There will be more dispute settlement cases at the WTO, and we may well be a part of that. You're all familiar with the initiative we've taken on corn.

We're getting into a much less predictable environment. We not only lose the possibility of getting some real changes in terms of cuts to subsidies and improvements to market access, but we lose the strength of a rules-based system and the ability to get new rules in place, which benefit Canada probably more than anywhere. We need those rules to have a fair environment when we're competing against the major players.

Mr. David Anderson: Well, 90% of our agriculture is export oriented and 10% isn't. Are bilaterals a better place to address that tension or do you think the WTO is the better place to deal with those issues?

• (1620)

Mr. Steve Verheul: The WTO negotiations and bilateral negotiations are fundamentally different.

In a bilateral negotiation, you can't address domestic subsidies. You can't address export subsidies in any meaningful sense, particularly in relation to the U.S. and Europe, where most of the problems originate. Bilateral agreements are largely about improving market access. You can get gains in specific markets. You might displace some of the countries in that market because of those advantages. But in terms of any broader advantages to improving the system, you really can't get it out of a bilateral agreement.

The Chair: Because we have votes tonight and the bells are going to start ringing at quarter after five, we're going to suspend to allow the other witnesses to come to the table. We'll then carry on with our questioning on milk protein concentrates.

We'll suspend for a quick minute, and I'd ask that the other witnesses come to the table as quickly as possible.

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_____ (Pause) _____

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• (1625)

The Chair: We'll come back to order. I'm glad to welcome to the table Debra Bryanton from CFIA, Darwin Satherstrom from the Canada Border Services Agency, Gerry Salembier from the Department of Foreign Affairs and International Trade, and Gilles Le Blanc from the Department of Finance.

Mr. Verheul, I'll turn it back to you to start off this round.

Mr. Steve Verheul: Thank you again, Mr. Chairman. Thanks for the opportunity to appear before you to discuss the initiatives recently announced by the government with respect to milk protein concentrates.

Just to very briefly recap, on February 3, Minister Strahl announced that the government will be initiating negotiations under article XXVIII of the General Agreement on Tariffs and Trade to restrict imports of milk protein concentrates in response to dairy industry concerns about the increasing use of these concentrates in making cheese and other dairy products.

On a separate issue, he has asked the Canadian Food Inspection Agency to launch a regulatory process related to compositional standards for cheese and he has urged the producers and processors to continue the dairy industry working group.

As mentioned before, in addition to the Department of Agriculture and Agri-Food, there are a number of other federal departments and agencies involved in these issues. I'll just briefly introduce them. I am joined by Gilles Le Blanc, senior chief, international trade policy division, Department of Finance; Darwin Satherstrom, director general, trade programs directorate, Canada Border Services Agency; Gerry Salembier, director general, multilateral trade policy, Department of Foreign Affairs and International Trade; and Debra Bryanton, who is the executive director of food safety with the Canadian Food Inspection Agency.

In general, the Department of Finance is responsible for Canada's customs tariff. That's the law that sets out the tariff rates for imported goods. In addition, the department is responsible for other import policy legislation, including the Special Import Measures Act, which sets out the rules for addressing dumped and subsidized imports.

Mr. Le Blanc will be our lead negotiator for the GATT article XXVIII negotiations.

The role of the Canada Border Services Agency is to ensure the proper classification of imported goods, and we follow a process adhering to classification principles that are internationally mandated under what is known as the harmonized system for goods classification as well as national subdivisions within that system.

The Department of Foreign Affairs and International Trade is responsible for the broader international trade elements of the issue, and specifically with respect to article XXVIII of the GATT, that is, DFAIT deals with the intersection of this agriculture-specific issue with Canada's international trade obligations and our engagement with WTO members as a whole. While Agriculture and Agri-Food Canada is responsible for agricultural trade policy, DFAIT is the lead agency on Canada's overall trade policy and as such deals with the implications of the MPC issue and any government action on it from the perspective of Canada's overall trade relations.

In short, the four departments, Finance, DFAIT, CBSA, and AFC, are working together on the article XXVIII negotiations.

You have been provided with a backgrounder setting out how GATT article XXVIII negotiations proceed. Although I understand that your main interest today is to discuss the import of milk protein concentrates, our colleague from the CFIA will be in a position to answer questions you may have on the development of compositional standards, the other part of the announcement the minister made at the dairy farmers' meeting.

CFIA is mandated to safeguard Canada's food supply and the plants and animals upon which safe and high-quality food depend. To deliver its broad regulatory mandate, the CFIA verifies compliance with 13 federal acts and their respective regulations that promote food safety, consumer protection, and animal and plant health. A backgrounder outlining the federal legislation related to food safety and quality for dairy products has also been provided to you.

So given the number of organizations being represented at this table, it has also been agreed that for the purposes of this meeting, I would lead for the government representatives and ask the most appropriate person to reply to each question. I hope this will allow us to expedite the process of responding to your questions.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Verheul, and I welcome all of you to committee as officials for the government.

With that, I turn it over to Mr. Easter to start off round one.

Hon. Wayne Easter: Thanks, Mr. Chair.

Article XXVIII, from our perspective, certainly makes sense, Mr. Chair, because I think the current import of milk protein concentrate goes against the intent of the tariff lines that were established in the beginning, and I think to a great extent the industry found a way around that by the importation of these milk protein concentrates. Originally when this system was envisioned, milk was milk and now it can be broken down.

So I know in principle that we certainly agree with the call to go to article XXVIII.

In terms of the article XXVIII action itself, though, will it apply to products coming in from the United States?

• (1630)

Mr. Gerry Salembier (Director General, Multilateral Trade Policy, Department of Foreign Affairs and International Trade): Thanks for the question. It's not a surprise that it's the first one.

The application of a GATT article XXVIII action to imports from the U.S., and from Mexico for that matter, needs to be informed by the rights and obligations that Canada has under the NAFTA. There's a pretty widely held view in the legal community that the terms of the NAFTA do not provide for the establishment of a new tariff rate quota of the sort that's envisioned by the government's announcement on milk protein concentrates a couple of weeks ago.

Hon. Wayne Easter: Is the government doing anything to get around that? I think there's legal opinion on both sides. I know that the legal advice the government seems to be taking is that, using NAFTA as a reason, it would not apply to imports from the United States. I think we differ on that, and I think there are other legal opinions that differ as well.

Without article XXVIII applying to the importation of U.S. products, this article XXVIII is not going to deal effectively with decreasing market availability for Canadian milk products, because that is where a lot of the supply is coming from. Is that not correct?

Mr. Gerry Salembier: Let me start at the end of your question. Where is the supply coming from?

Part of the problem in coming to grips with this issue is that the relevant tariff line, 3504.00.00, I believe, includes more than just milk protein concentrates. Exactly what imports of milk protein concentrates are coming in and where they're coming from is not a simple matter to ascertain. We're doing some work to try to figure out exactly what and how much is coming from where.

Your question started, I think, by asking if the government is trying to sort of get around this issue of the provisions of the NAFTA. The actions we will take will be in full compliance with our obligations under the NAFTA. We're not going to try to circumvent the obligations we have under any of our trade agreements, be it the WTO or the NAFTA, in this case.

You made reference to the legal opinions on both sides of the issue. In our view, the more widely held view is that the terms of the NAFTA do not allow for the establishment of a new tariff rate quota.

Hon. Wayne Easter: I'm telling you right now, and we're telling the government members, that if making this announcement to the Dairy Farmers of Canada, knowing full well that they can't really deal with the problem, is all smoke and mirrors on the part of the Minister of Agriculture, then we're not going to be a bunch of happy campers on this side of the House, nor will be farmers across this country. We expect representatives from all the departments involved on this issue to come down on the side of the farming community—which was Minister Strahl's intent, as I understand it—and do what you have to do to do that. That's what we will be expecting.

In terms of line 3504.00.00, as I understand it, and again, it's a difference in terms of how we do things in Canada versus the United States, there's a lack of transparency in our tariff classification process in the Canada Border Services Agency, whereas the United States makes all classification decisions available to the public and puts them on their government website. Can we not do the same so that we have transparency in terms of what products we're really dealing with?

• (1635)

Mr. Darwin Satherstrom (Director, Trade Programs Directorate, Canada Border Services Agency): Thank you.

The issue, for example, of publishing rulings in respect of particular goods is considered confidential, because it applies to specific importations from specific companies. We're not authorized to release this information, as it provides commercial information that might damage particular companies. For that reason, there is no public dissemination of information related to specific tariff rulings.

Hon. Wayne Easter: We'll set that one aside, because I'm going to run out of time.

To the specifics of the issue of article XXVIII, I am very worried about what I'm hearing from you folks, because we do have a deal with the U.S. side. Has the government notified the WTO as of yet? Is legislation required, and if it is, when can we expect the legislation to be before Parliament?

Mr. Gilles Le Blanc (Senior Chief, International Trade Policy Division, International Trade and Finance, Department of Finance): Thank you, Chair.

With respect to the first question, the answer is no. There is an interdepartmental team that was established soon after the

announcement by Minister Strahl. We are basically right now working and preparing the notification. There are certain technical issues that need to be dealt with before we put the notification forward. For example, one was mentioned by Gerry, the import stats. There are no publicly available data with respect to protein concentrates, and therefore we need to do some work in that regard. I think that responds to your question.

With respect to the implementation, an element of your question, what I can say is that in article XXVIII it's quite clear that you can modify concessions, but it's by negotiation and agreement with the affected parties. First we need to go through negotiations before we can change the provisions. We intend to try to get notification soon to the WTO in order to start the process associated with an article XXVIII renegotiation.

The Chair: Sorry, Mr. Easter, your time has expired.

We will turn it over to Mr. Bellavance for seven minutes.

[*Translation*]

Mr. André Bellavance: Mr. LeBlanc, you say “soon”. The minister recently made the announcement to dairy producers. I'd like to know whether we have a very specific timetable and exactly how that works. Moreover, it's somewhat for that reason that we wanted a briefing session.

We understand very well that we have to be careful because this is a public meeting. Other countries must not be able to use anything that we might say here against us or against the use of article 28. Nevertheless, from a technical standpoint, exactly how does that work? At what point is the process started, and what is the timeframe?

We have a minority government. Could a spring election call cause problems, for example? When can we know the effective date of article 28? To what countries are we speaking exactly?

Mr. Gilles Le Blanc: I've just briefly explained the process. As regards notification, we first have to resolve certain technical questions. When we give notification, some information must appear on it, like the trade for the products concerned. We're working on that right now. We can't send notification without having these basic elements. We hope to be able to present notification in the near future. I can't really commit to giving you a date.

As regards the time that a negotiating exercise might take under article 28, as I said earlier, we have to negotiate with our trading partners and try to come to an agreement whereby the parties are mutually ready to move forward with the change we've made. The ultimate goal is for our trading partners to accept the modification of the concession we've made. As discussions and negotiations have enabled them to obtain compensation, they came to the conclusion that the concessions had been rebalanced. Following that agreement, we'll be able to put the measure into effect.

Two or three parties, even more, are taking part in these negotiations. So we really have no control over the time the negotiations can take.

•(1640)

Mr. André Bellavance: The countries are Switzerland, Germany, France, New Zealand and the United States?

Mr. Gilles Le Blanc: The countries are those of the European Union, Switzerland, New Zealand and the United States.

Mr. André Bellavance: New Zealand has already reacted badly. So we can expect the negotiations to be quite long.

Mr. Gilles Le Blanc: New Zealand has expressed its disappointment. Its representatives acknowledge that we have a right under article 28, but they have also clearly indicated that they would fully exercise their right under that same article 28. We'll see how the negotiations turn out, but we can't presume to know when they'll be complete. In terms of process, once we've presented our written notice, the members or contracting parties to the WTO will have 90 days to make their interest known. Those with whom we'll negotiate are those who were given an initial negotiating right when the concession in question was original negotiated. There are principal suppliers and also major suppliers. We have an obligation to negotiate with those who had an initial negotiating right and with principal suppliers.

As regards major suppliers who are not principal suppliers, we have an obligation to consult. At the end of the process, if they are not satisfied with the outcome of the negotiation, they also have a right of reprisal.

Mr. André Bellavance: Mr. Easter raised a very important point. I also wanted to remind the committee that we received the dairy producers and processors last May and June. They were already talking about the possibility of using article 28 at the time. The government was utterly opposed to it, the departmental people as well. One of the main arguments we were given was that, under NAFTA, we would in any case be stuck with imports from the United States and Mexico.

So, since the minister recently made the decision to use article 28, what about that argument? Indeed, even though the dairy producers of Canada gave us a clear legal opinion on the subject, the department's officials told us that we would be stuck with imports from the United States and Mexico. What do you say about that, now that we've decided to invoke article 28. Is the position the same?

Mr. Gerry Salembier: Unfortunately or not, I wasn't in my present position at the time of the decision you refer to, last May or June. From our standpoint, the most accepted legal opinion is that NAFTA prohibits the creation of a new tariff contract, as I explained to Mr. Easter. Nothing has changed in the NAFTA provisions since that time. That's what we consider the most accepted legal opinion.

Mr. André Bellavance: So, in your view, the argument that the department used at the time, that the use of article 28 would vastly limit the effects, since the processors could just as easily go and supply themselves in the United States and Mexico, still stands. The minister's decision therefore didn't serve much of a purpose. That's what you've just told us.

•(1645)

Mr. Gerry Salembier: You're talking about reactions in the market that can happen or not happen. That's a possibility that has to be taken into account. At this stage, I can perhaps mention that what the minister announced two weeks ago consisted of two parts: one was article 18, and the other was the compositional standards.

Mr. André Bellavance: Compositional standards.

Mr. Gerry Salembier: Perhaps it's this second component that may be important for those who think there would be a market reaction in favour of exports from the United States.

[English]

The Chair: Sorry, the time is up, Mr. Bellavance.

Just to follow up on that, aren't the compositional standards actually going to have a longer-term effect on making sure that we do reduce the imports of milk protein concentrates versus article XXVIII, which is kind of an immediate fix—or hopefully it's an immediate fix—but the standards will have the bigger impact and will include the NAFTA countries?

Ms. Debra Bryanton (Executive Director, Food Safety, Canadian Food Inspection Agency): The compositional standards that were recommended by the moderator at the dairy industry working group do include provisions that relate to the milk ingredients as well as the milk itself. As a result of that, there will be specific provisions in the compositional standard that will relate to the ingredients that go into cheese.

The use of these ingredients depends on the product that is being produced, but the compositional standards are not oriented specifically around limiting the imports of modified milk ingredients. They are oriented around being an understanding of what amount is permitted in making up the different cheese categories. So we are looking to action the recommendations that were made by the moderator at the dairy industry working group through our compositional cheese standards.

I think the question was oriented around whether this would have a longer-term impact. Those cheese standards would be in place in regulation until a regulatory amendment was made in the future. So they would stay in place until otherwise changed.

The Chair: Mr. Miller for seven minutes, please.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thank you very much, Mr. Chairman, and thank you to all the witnesses for appearing here today.

I heard your comments on parts of article XXVIII in regard to NAFTA. Mr. Bellavance just insinuated that the industry knew, basically, what could happen with an article XXVIII in regard to NAFTA. In your opinion, was the industry aware of what they could and couldn't do as far as article XXVIII was concerned and what it would do as far as NAFTA was concerned? Anybody?

Mr. Steve Verheul: As I think members of the committee are aware, this issue of a potential article XXVIII has been on the table in various forms for a number of years. We have been consistently provided with legal advice that we would not be able to apply the results of an article XXVIII against the U.S.

Mr. Larry Miller: What you're saying, then, is that the industry was quite aware of that as well, or it should have been.

Mr. Steve Verheul: That issue was discussed extensively in various different places.

Mr. Larry Miller: Okay.

In your professional opinion, knowing that, then, why would the industry still push ahead with that? I believe that was still their wish or their demand, or whatever, right up to that.

Mr. Steve Verheul: Well, first of all, I think the industry has had a different view on that issue. They think we should be able to apply the results of an article XXVIII against the U.S., and they have some of their own legal advice that supports that, so they've maintained that view.

There have also been discussions about the possibility of having a separate negotiation with the U.S. to try to address the issue, and they have at some times suggested that might be an avenue to follow. So we've had fairly extensive discussions about this.

• (1650)

Mr. Larry Miller: So I guess it would be fair to say also that any former ministers of agriculture, maybe even the parliamentary secretaries to the minister, would have known what could and couldn't happen as far as article XXVIII with NAFTA was concerned. Would that be a fair statement?

Mr. Steve Verheul: This has been a long-standing view, all along the way, since article XXVIII discussions have been—

Mr. Larry Miller: Well, thank you very much, because I was kind of dismayed, myself, at my colleague across the way, at his dismay about it.

In your opinion, why did MPCs skyrocket between 2005 and 2006? And if an article XXVIII were enacted earlier, would that have stopped that? Have you any opinion on whether it should have been done sooner?

Mr. Steve Verheul: We're still going through some of the statistics to determine exactly what the milk protein concentrates out of that category are and what the other products in that category are, including soy protein and all kinds of different things. Once we get that kind of information isolated we'll be able to tell whether there has been an explosion or a skyrocket, as you mention.

We suspect, just on the basis of things we've been hearing, that it has increased over the past year. I think some processors have wanted to import more during this period when there has been some discussion about possible constraints.

There's still a demand for the product, and it's likely to increase in the absence of any action. But when we get into an article XXVIII negotiation—Gilles might want to speak to this more—we're not generally looking at one year of trade. We tend to look at a longer period, so a recent increase is not going to make that much difference over a three-year average.

Mr. Larry Miller: In addition to protein concentrates, we have other ingredients, like caseins, caseinates, and butter oil/sugar blends. Would any one of you in your professional capacity ever recommend to the minister that an article XXVIII be enacted toward those? Do you have any comments?

Mr. Steve Verheul: On the issue of caseins and caseinates, we've actually seen very low imports of these products over the last little while, so it hasn't been one of the more important issues in front of us.

When there was discussion about butter oil/sugar blends in the past, there was no article XXVIII action taken. At this point there's probably not a lot of value to pursuing that on those products, given the makeup of the market now. We're also starting to see those imports flatten out somewhat.

Mr. Larry Miller: I think I heard you correctly that there's no agreement on compensation. I think exporting countries affected by article XXVIII will be able to impose sanctions against Canada. Would those sanctions be placed strictly on agricultural products, or could they be on basically any product they import from Canada?

Mr. Gilles Le Blanc: In an article XXVIII you're trying to reach agreement through compensation. That's the first objective. But in the end, if agreement cannot be reached and the country that wanted to modify a concession decided to go ahead, the other party could take retaliatory action. It's not limited to the products that were the subject of the modification. If it were in the agricultural area, the retaliation could be in any other sector. They are not limited in their choice of product.

Mr. Larry Miller: Do you have any inkling of what area they might target if it ever got to that point? Do you have any opinion or comment on that?

Mr. Gilles Le Blanc: I would be misplaced to speak about that because I'm not a representative of those countries, but usually they will try to hit products of which Canada is a significant supplier or the main supplier. These actions have to be done on an MFN basis, and that's usually what they aim for. It's where Canada would be the main supplier.

• (1655)

Mr. Larry Miller: Just to carry that out a little further, could you give an example of a country and what product they might use? What product in the British Isles do you think they might target, for example? I know this is just hypothetical.

Mr. Gilles Le Blanc: I cannot really answer that question.

Mr. Larry Miller: That's all I have. I know I'm out of time.

The Chair: In the case where an agreement on an article XXVIII isn't achieved and a country can take actions against us, of what value would that be? What is the value of the milk protein concentrates coming in that we're trying to prevent under article XXVIII?

Mr. Gilles Le Blanc: It will have to be commensurate with the impact of the change that you've done, essentially.

The Chair: Any idea on dollar value, though?

Mr. Gilles Le Blanc: This is not an issue that we have started thinking about, as we are still yet to start negotiations. We're not there yet.

The Chair: No, I appreciate that.

Mr. Gilles Le Blanc: And we hope not to get there.

The Chair: Mr. Boshcoff is kicking off this round. Five minutes, please.

Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.): Thank you, Mr. Chair.

Dairy farmers in my riding, and farmers in general, have a really basic, straightforward question when it comes to these negotiations, so perhaps this can go between the five of you. They feel that they themselves can compete because of our quality standards, our environmental regulations, our strict definition of what constitutes certain products, our protections through our inspection systems, legislative safeguards, plus they feel they have some good marketing and they cooperate when they're selling, and above all it's efficient production.

So they ask this one question, and this is what troubles them, I believe, as it does me: when we negotiate, why would we allow imports that do not meet those same standards of production, of safety assurance, of quality inspection, environmental security, and even the definitional consistency, so that what we would hold to be milk-like ends up being not milk or the definitions are obviously contrary? They know what they have to do to produce a quality product. They want to know that if they have to compete, what comes in has to meet the same standards and rigour, the same level playing field, in essence.

Ms. Debra Bryanton: The regulations that apply to the safety, quality, and labelling provisions for food in Canada apply equally domestically and for imported products. On a domestic basis, of course, we are able to actually experience the conditions in our establishments and are able to verify that the reputation Canada has for safety and quality of food is, in great part, because of the efforts of our industry in producing safe, high-quality foods.

For imports, we do have an import regime that focuses on the importer as the responsible party for the imported product. And we have a program that looks at the imported finished product, where we do review the labelling components and the compositional components, but also, of great importance, the safety components of those products. So that does include a comprehensive sampling program that looks at chemical residues, including veterinary drugs and microbial issues that may relate to certain cheese categories. The overall compliance rate of imported cheese products, in particular, is very high.

Now, we also must take into account that the dairy products that are imported into Canada do come from countries that do have effective food safety systems in place. We certainly take that into account when we're identifying and targeting areas for specific attention.

Mr. Ken Boshcoff: Mr. Verheul, when you are negotiating in other situations, do you keep that as a philosophy in your mind, that this is something that has to be rigorously adhered to? And then

supplemental to that would be, is the only qualitative difference one of, essentially, subsidies to other products at which they compete, at which they unlevel the playing field?

● (1700)

Mr. Steve Verheul: Certainly that is an issue that's part of the context of the negotiations. We're not dealing directly with health and sanitary issues in the negotiations. It was decided that we wouldn't address those issues this time around. But clearly in our approach to the negotiations, competitiveness and those kinds of issues are front of mind.

It is a fact that with respect to our dairy industry, for example, our domestic prices are two to three times what world prices are, so we have producers out there in other countries who can produce at a far lower value than our own producers are producing. Much of that is because of the high value of quota in Canada, which makes up somewhere between 40% and 45% of most producers' asset value. That's a cost that producers in other countries don't have. It's a feature of our system, and they don't have that kind of system.

So there are various factors that go into our ability to compete with others. What we are trying to achieve is a level playing field, to use that commonly used phrase, that allows our producers to compete under the same kinds of rules and conditions as others to the extent we can.

Mr. Ken Boshcoff: Would that apply not only to milk and dairy products, but also to vegetable produce, fruits, and other types? Is it generally something that doesn't bear many exceptions? Is it essentially the same across the board, from supply management to beef and to all those kinds of things?

Mr. Steve Verheul: I would say that it's actually quite different from commodity to commodity. Because of the nature of supply management, our supply-managed commodities are in a situation that is different from some of our other commodities; most of the rest of our commodities are quite capable of competing on the world stage in other markets.

Mr. Ken Boshcoff: How do you keep all those things in your mind when you're doing all this?

Mr. Steve Verheul: When it comes to things like standards and health and sanitary requirements—Debra may want to speak to this more—clearly those are very important in terms of whether we get real access or not. At the WTO we can negotiate the tariffs and the conditions at the border, but even if you remove the tariffs and get through that, you might still face, as we frequently do, some kind of sanitary or health barrier that is going to block your access.

Ongoing efforts through the Canadian Food Inspection Agency and others are trying to address those issues at the same time, even though they're not directly part of the negotiations.

I should probably give Debra an opportunity to add to that, if she'd like.

Ms. Debra Bryanton: Perhaps one of the benefits of the WTO agreement and the provisions that relate to sanitary and phytosanitary measures is that they do provide transparency and more predictability in our international trade environment. Certain rights and obligations also contained in those agreements permit us to more effectively take action when we do feel that a measure is inappropriate; for instance, if there is a food safety measure that we don't feel is adequately based on risk, we are in a better position to be able to work with our trading partners to resolve those issues.

Certainly the food safety and animal and plant health system we have in Canada serves as a very strong basis for trade internationally, and on the basis of that system we're able to more effectively work with trading partners to make sure product from Canada is accepted on the basis of the Canadian regulatory provisions.

When we do have a specific issue that needs to be addressed, of course, we put our efforts into demonstrating that the system we have in Canada and the products that come from Canada do meet the provisions of the particular country when those provisions are demonstrated to be soundly based true safety provisions, as opposed to being more oriented toward being a trade barrier.

The Chair: Thank you.

Mr. Crête is next.

[Translation]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chair.

Apart from the issue of article 28, there's that of compositional standards for products. Can you tell us how that will work and within what timeframes it will work?

• (1705)

[English]

Ms. Debra Bryanton: Our minister has announced that he has asked the CFIA to launch the regulatory process to work toward implementing the recommendations of the moderator of the dairy industry working group into our regulatory framework. We have begun that process already, and we have begun our internal processes toward the regulatory process, which includes the writing of the regulations themselves and also the writing of a regulatory impact analysis statement.

We have been in contact with key stakeholders to seek information that will be included in that regulatory impact analysis statement. Although the regulatory process can take 12 to 18 months, we are doing what we can to accelerate that process. It will follow Government of Canada regulatory policies, so it will be transparent and there will be the opportunity to comment when the regulations are pre-published in the *Canada Gazette*, part I.

Also, in keeping with our international obligations, there will be a comment period of 75 days and a notification to the WTO that these

regulations are available for comment. Any comments that we do receive will be considered before we go to *Canada Gazette*, part II, so we are looking at trying to have a regulatory process that is approximately a year.

[Translation]

Mr. Paul Crête: If I understand correctly, while these negotiations take place, the market continues to operate with the deficiencies observed by the dairy producers. We didn't turn off the tap.

For how long will we be dealing with that?

Mr. Gilles Le Blanc: You're right. Until we've made a modification and negotiated that modification with the WTO, our current obligations will continue to apply.

Mr. Paul Crête: Time is working against the producers. The negotiation could last a very long time. So we could be dealing with this situation for three, four, five years or until a settlement is implemented. Am I completely dreaming? Otherwise, could these timeframes materialize?

Mr. Gilles Le Blanc: As I said earlier, it's hard to predict the time this will take. I forgot to clarify one point earlier, and I'd like to do that now.

Once the negotiations have concluded, if everyone has agreed, we can begin the implementation process at the national level. The tariff change that we would propose would be implemented by means of an act. The normal legislative process would then take place. This information appears in the document that was distributed to you earlier.

Mr. Paul Crête: Can you give us any examples of situations in which this article was invoked, either in or outside Canada? I'd like to know the timeframes and the results obtained.

Mr. Gilles Le Blanc: I can speak to you from my own experience. The situations I have known, but which are not recent...

Mr. Paul Crête: Despite the fact you're young...

Mr. Gilles Le Blanc: Indeed, thank you.

That concluded within timeframes of less than four or five years. Those were much more reasonable timeframes. That memory goes back more than 20 years, I believe.

Mr. Paul Crête: Was the regulatory framework similar?

Mr. Gilles Le Blanc: That was a modification implemented following a review of the tariff structure of a certain sector of the customs tariff. That review was conducted by an independent agency of that time, the Tariff Commission. Other negotiations took place under article 28. For example, a few years ago, we significantly simplified the Customs Tariff. Rates were subsequently affected, but that was technical and quite insignificant.

The rules of that simplification proved to be very interesting for Canadian merchants. For the government, that exercise resulted in foregone revenue of \$90 million. The trading partners saw that that was really profitable for them. The simplification of the Canadian tariff was viewed by Canadian businessmen as a positive measure. That process didn't take very long.

•(1710)

Mr. Paul Crête: Thank you.

[English]

The Chair: Mr. Crête, your time has expired.

Mr. Devolin for five minutes, please.

Mr. Barry Devolin (Haliburton—Kawartha Lakes—Brock, CPC): Thanks, Mr. Chair. Thanks for being here today.

Earlier one of the other members asked a question about where the MPCs that are currently coming into Canada are originating from, what the volume was, and whether there has been a significant change in the volume in the last year or so.

I think the answer was that's difficult to determine, both where they come from and the volumes. If that's true, if you don't have access to that information, do these other countries declare themselves in terms of where the MPCs are coming from? When they declare themselves, do they tell you how much they're sending into Canada, and since you are unable to confirm that, do you take their word for it?

It would seem to me there's some basic information—which countries the MPCs are coming from, how much from each, and how that has changed. If you don't have that information now, how are you going to have that information before you get into these negotiations?

Mr. Gilles Le Blanc: We're not saying that we don't have the information. What we're saying is that we have to dig it up, because we don't have statistics that we can point to that contain the import stats for that. It comes in an item that has more than one type of product coming in.

What we need to do is we need to really dig it up, do some more work at the technical level, Agriculture Canada working, for example, with CBSA to try to separate the imports of these products from the others that come under the same item. That's what we are doing right now. That's work that is important to do, because when we go to the WTO, we will need to be able to indicate the imports of these countries. It's just that it's not readily available. That's the word I was looking for.

Mr. Barry Devolin: I'm picturing some great big pile of receipts somewhere, and somebody is going to have to sift through them and determine what's actually included and tally that up.

Given the importance of this issue—I've only been here for two and a half years, but I've been listening to this conversation for two and a half years—I'm just surprised that the department didn't do that already, that somebody six months or two years ago wouldn't have said that we should actually compile this information so that we know. In retrospect, do you not think it would have been a good idea before now to actually pull this information together, so we actually have a sense of the magnitude of the problem we are dealing with?

Mr. Steve Verheul: Part of the issue that we have been dealing with is that we really weren't sure where it was classified for quite some time. There was a ruling by the Canadian International Trade Tribunal that indicated we should be classifying it under a category that we were not anticipating we should be classifying it under. There was a ruling by the Federal Court that also upheld that. We

were at various times sent down different tracks because of different rulings.

We have done some preliminary analysis, as Gilles has referred to, so we do know, but without complete accuracy, that most of these imports are coming from New Zealand, the European Union, Switzerland, and to some extent the U.S. We know where they are coming from. We just need very precise statistics for the purposes of the negotiations. That's what we're trying to nail down, because we don't want to get into any kind of debate or discussion on the statistics themselves with our negotiating partners.

•(1715)

Mr. Barry Devolin: Are these the source of the MPCs? Is that where they are coming from or where they were produced? For example, with respect to a multinational company that maybe produces the MPCs in New Zealand, but then within their own company ships them to the United States, and then they actually arrive in Canada from the United States, is that a trade dispute we have with the United States because that's the country they are coming into Canada from, or do we deal with the country where they are produced? The second part of that is this. What if there is fluid milk that crosses the border somewhere to be produced? How do you sort all that out?

Mr. Gilles Le Blanc: I don't really have an answer to your question, but usually you look at the source in terms of where it's being produced. I don't know if you....

Mr. Steve Verheul: Perhaps I can add something to that. What we'll be looking at in almost every case is where the product was actually produced. If we're looking at New Zealand, it was actually produced in New Zealand, and produced from raw milk in New Zealand. There are very few cases where we would see a lot of trade that it would be raw milk in one country that would go to another country and be processed. That doesn't really exist in too many places because of the nature of the industry.

We also have certain rules-of-origin obligations that are followed in determining where the product is actually coming from, where the country of origin is. If necessary, we would be looking at those as well. To this point, we think it's quite clear the products are coming and being manufactured in the countries I mentioned earlier.

The Chair: Thank you, Mr. Devolin.

The bells are ringing.

I know Mr. Steckle wants to ask a very short question. We have a 15-minute bell, so very briefly, Mr. Steckle.

Mr. Paul Steckle: Very quickly, since this issue has been on the table for a long, long time, what sealed this deal to bring it forward at the Dairy Farmers of Canada convention? What finally made them take the move? You represent Finance. Were you informed? Were you supportive of it, and were all the departments that were involved—Trade, Foreign Affairs, Finance—supportive of this view going forward? If they were, what was your view towards the day, as someone said, they would “close the tap”? When does that stop? My understanding is that it hasn't stopped yet.

The Chair: I would appreciate a shorter reply than the question.

Mr. Steve Verheul: The minister created this dairy working group back in the early spring. The reaction we were getting very early on in that process, including from dairy producers, was that article XXVIII isn't necessarily the best approach to deal with the issues. We were trying to develop a process where producers and processors and the government could each look at this issue and try to come up with longer-term approaches that would be less disruptive in other ways. That process broke down in January, which led us back to the article XVIII route. So that's where we are.

In terms of the imports, as was mentioned earlier on, we tend to look at three-year averages. Any recent movement may have some effect, but it's not going to have a major effect. It will be the three-year average that will be important.

Mr. Paul Steckle: Is Finance part of what is moving forward on this?

Mr. Gilles Le Blanc: That was a government decision, which was announced on February 7.

The Chair: I want to thank all the witnesses for coming in today. I know this discussion could have gone on for quite some time.

Mr. Le Blanc.

Mr. Gilles Le Blanc: I want to clarify one thing. I said that the article XXVIII negotiations, as a result of the simplified tariff, took a reasonable period of time. I think it took perhaps a few years, but what prevented agreement was not significant.

The Chair: I appreciate that clarification. It's on the record. It will be in our proceedings.

With that, we're adjourned.

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