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Chair

Mr. Leon Benoit

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• (1535)

[English]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): This meeting has now become a public meeting. We're no longer in camera.

I apologize for the interruption, Mr. Minister. Go ahead, please.

Hon. David Emerson (Minister of International Trade): Thank you.

As I was saying, as you are aware, on April 27 the Prime Minister addressed the House to announce that Canada and the United States had reached an agreement in principle that will provide the basis for ending the long-standing softwood lumber dispute. The result of discussions with the United States is a seven-year agreement in principle designed to ensure U.S. market access, to protect Canadian market share, and to bring stability to an industry impaired by over 20 years of relentless trade action by U.S. protectionists.

The agreement in principle will provide immediate economic benefit and security to Canada. Provinces have indicated their support. The agreement in principle will see not only the revocation of duties but also the return to Canadian lumber producers of some 80% of the collected deposits—that is, \$4 billion U.S. back into the hands of Canadian exporters. This money will significantly benefit these exporters and will help their workers and the communities in which they are located.

The agreement in principle takes account of different operating conditions in Canada by providing provinces and industry with flexibility to respond to their specific circumstances, including the exempting of certain regions of Canada and certain products entirely. For the next seven to nine years, when lumber prices are high, as in our current market situation, no border measure will be imposed—that is, no tax and no quota. When prices are lower, a province can choose the export measure that works best for its industry.

The agreement also includes an innovative mechanism that responds to Canadian industry concerns about the possibility of other lumber-producing countries increasing their exports to the United States at the expense of Canada. The agreement will provide refunds to Canadian exporters in this situation. This is a first in Canada-U.S. lumber talks.

Once the final agreement enters into force, duties will no longer be collected, and the U.S. government will begin the process of refunding duty deposits to importers of record.

The next step involves the detailed work of drafting the legal text and finalizing the agreement. We are working to complete this in the coming weeks. This detailed work involves designing the mechanics of the agreement's key features, such as the disposition of deposits, border measures, the surge mechanism, and other matters. It will also involve passing legislation to implement the border measures, design a quota system, and draft legal text. This work is now under way. We will consult regularly with the provinces and with industry.

From the outset our government has been committed to the best interests of Canada—the provinces, the industry, forest workers, and the families and communities whose livelihoods depend on the forest sector. We have given our lumber companies, their workers, and the communities in which they live a more secure and brighter future because of this agreement.

The agreement in principle will pave the way for a stronger bilateral trade relationship, a relationship upon which so many Canadians depend for their jobs and prosperity. Furthermore, it will set a more positive tone as our countries move forward in collaborating to make North America more competitive and prosperous on a global scale.

Thank you, Mr. Chairman.

The Chair: Thank you very much, Mr. Minister.

Just before we get into questioning, I do want to mention a couple of things.

First, this meeting was originally scheduled as an in camera meeting. That's why we were prepared to start the meeting like that. At the last meeting, a member had asked this meeting to be opened up, and we're fine with that.

On the agenda, I notice that the meeting time is scheduled for 3:30 to 5:30, and I understand, Minister Emerson, that you have a cabinet committee meeting to attend at 4:30.

Hon. David Emerson: That's correct.

The Chair: Okay, we have one hour with the minister today. We'll get directly to it so that we get as many questions as possible.

For the first questioner in the seven-minute round, we'll go to the official opposition Liberals.

Monsieur LeBlanc.

• (1540)

[Translation]

Hon. Dominic LeBlanc (Beauséjour, Lib.): Thank you, Mr. Chairman.

[English]

Welcome, Minister Emerson, to the committee.

First, Minister, I think as a member of Parliament from Atlantic Canada, in all fairness, if the government were going to sign an agreement that was essential, one thing is that the historic circumstances of the Atlantic be protected. The industry in my part of the country feels that your government, like the previous government, respected this historic exemption. I think that's worth outlining by way of introduction.

The one thing, Minister—through you, Mr. Chairman—that I hear a lot about is a concern about the amount of time it may take for companies to see any benefit from the return of the deposits with the U.S. Treasury. If you as Minister of Industry participated in an announcement last November recognizing the urgency of the softwood situation and the threat many companies were under—risk of layoffs, financial balance sheets in very bad shape—and companies are now being told that it's going to take perhaps up to a year after a final agreement is reached before they see the money, I was hoping the government might either buy the receivables these companies will have or guarantee them, since the \$1.5 billion aid package last fall is off the table. In the interim, until they can see some of this deposit money returned, there will be more job losses and mills operating in very difficult circumstances.

I'm wondering if the government has plans to expedite the return of that money.

Hon. David Emerson: Thank you very much, Dominic.

I was happy to be able to ensure the Atlantic provinces' exemption was retained. I think that's a very important part of the agreement going forward.

The return of deposits is going to be a complex process whether you carry on the fight through litigation to the bitter end or whether you have a negotiated agreement. It is an issue that involves, basically, unwinding deposits that number in excess of 8,000 individual entries and involves the U.S. Department of Commerce and Treasury.

While we will be influential, I would hope, in ensuring that there's an expeditious process in place to unwind those entries, that is something over which we have only limited control.

We are, however, looking at how we can ensure that Canadian softwood lumber producers who have deposits to be returned to them can take advantage of that fact more quickly. We're looking at a couple of options right now. These are pretty early stages to make any further comment.

Hon. Dominic LeBlanc: Thank you.

Minister, through the chair, another issue we have heard a lot about is concern from Canada's independent lumber remanufacturers. As you well know, these are small and medium-sized businesses that buy low-grade lumber. Perhaps up to 15% of what has been traditionally shipped to the United States within the 34% of the U.S. market has been processed by these independent remanufacturers. They employ people in Canada and have a considerable impact in the economy of many small places across

the Canada, in almost every region. They have seen huge job losses over the last five or six years.

They are having considerable difficulty getting access to the low-grade lumber, because many companies—probably suspecting an eventual quota system—in order to drive up volumes, have sent low-grade lumber to the United States to be included in the volume and have thereby deprived Canadian industry of value-added jobs here in Canada.

There's nothing more detrimental to the economy, in my view, than sending low-grade lumber to the United States, so that the remanufacturing is necessarily done there as opposed to being done by these small and medium-sized businesses in Canada. They're advocating that there be a carve-out; that if there is a quota system, there be a carve-out so that they're not competing with provinces for quota. As you know, they buy lumber on the open Canadian market. We worry that there'll be considerable disruption and job losses if they don't have access to some carve-out or some guaranteed mechanism to get access to wood. I'm wondering what provisions the government is looking at to help them as the framework discussions continue.

• (1545)

Hon. David Emerson: Again, thank you for that.

I met with the independent lumber remanufacturers this morning, as a matter of fact. You're quite correct in your statements that the independent remanufacturers have been very seriously hit by the softwood lumber dispute, for the reasons you've already indicated. Their livelihood is basically driven off of getting low-grade product from the integrated operators and remanufacturing it to a higher-value product, which makes them also the fundamental building block of the value-added part of the industry. So they're critically important to the industry. They've been disproportionately hurt.

What we have to focus on is how to ensure they benefit disproportionately going forward. In International Trade, we will be retaining an expert who will work specifically and solely with the independent remanufacturers to assess ways we can ensure, going forward, that their business is built on the economics of their business, not on some artificial behavioural reaction to what may or may not happen five or ten years down the road—which has happened, as you've indicated. A number of big producers, the integrators, have in fact done a lot of their own remanufacturing or sent the low grade to the United States, because they want to build up a shipment history that would be advantageous in the event that we eventually go back to a quota.

I recognize that, so we're going to be working with them to see if we can find a solution that gives them a secure and prosperous future.

The Chair: Mr. LeBlanc, your time is up.

Now to the Bloc, then over to the Conservatives.

Monsieur Paquette, seven minutes.

[Translation]

Mr. Pierre Paquette (Joliette, BQ): Thank you, Mr. Chairman.

I'd like to thank Minister Emerson for accepting our invitation. I have several questions for him, one of which is of great concern to industry officials.

In the text of the agreement in principle posted on the department's website, there is no reference to the duties that will be repaid with interest. Can you give us your assurance that the duties will be repaid, with interest, to Canadian companies? Will the interest be calculated on the approximately \$4 billion that will be repaid, or on \$5.3 billion?

[English]

Hon. David Emerson: Thank you very much, honourable colleague.

In fact, they will be repaid with interest. We will know what the final numbers are only, obviously, at such time as the duties are actually repatriated. Then we'll have a better handle on exactly what the sum of money is. But it is to be with interest.

[Translation]

Mr. Pierre Paquette: Will the interest on these entries or deposits be calculated on the \$5.3 billion or on the amount at the time the agreement was signed, or simply on that portion of the deposits that will be repaid to Canadian and Quebec companies?

[English]

Hon. David Emerson: The interest would be calculated on each individual entry, so it would be based on a recovery of the entries that they actually paid. We believe our producers will actually get more than the \$4 billion we've indicated in our announcements.

But again, it's something that will be known with accuracy only once we get closer to the actual....

[Translation]

Mr. Pierre Paquette: If I understand correctly, each producer-exporter will receive interest on the entries paid, even though he may not be refunded the full amount of the deposit made.

[English]

Hon. David Emerson: That's correct.

[Translation]

Mr. Pierre Paquette: We haven't found the 80 per cent figure mentioned in your proposal. The only talk now is of \$1 billion. Is it more advantageous then for the Canadian industry to limit this to \$1 billion, rather than talk about \$1 billion, or 80 per cent, which could mean the final amount could exceed \$1 billion if the agreement is not signed before next December? Why is there no mention of reimbursing 80 per cent of the entries in the version of the agreement posted on the department's website?

• (1550)

[English]

Hon. David Emerson: It would be our hope that at the end of the day we could possibly get more than 80% back, and we thought it was advantageous to structure it in this way.

[Translation]

Mr. Pierre Paquette: We're quite concerned about the dispute resolution mechanism that will apply under this agreement. The Americans have in fact succeeded in skirting the rules under Article

19 of NAFTA which had been in place for 20 years. How can we be certain that the agreement in principle will not give rise to a new dispute?

[English]

Hon. David Emerson: This is the debate that Mr. Julian and others have been engaging in around the whole question of anti-circumvention and the American side's commitment to not launching further trade actions over the life of this agreement. This agreement, I believe, gives us much greater protection against further trade actions being launched.

Today, even if we go forward and win legal cases, there will be appeal after appeal. When we finally exhaust all of the appeals, we may win the case, but that will not preclude or prevent the U.S. industry from launching yet more cases, armed with the information that they garnered in the process of the legal cases that had gone before the various panels to date.

So we could expect to see in very short order, without disagreement, another case that would allege injury, calculated in a little different way. We could possibly see some expansion of this case. So basically this agreement builds in commitments that the Americans—neither industry nor commerce—will not launch new cases.

For our side, we commit that the stumpage practices we have in place are the fundamental building block of this agreement. If we're going to make changes in stumpage systems that might be construed as a subsidy, then we're going to have to consult, as we have in the past. Provinces have always consulted with the U.S. Department of Commerce on policy changes they were making, simply because they wanted to avoid the ability under NAFTA for cases to be launched very quickly and very easily. They proved to be largely spurious cases, but the history of the file is to launch a case that is usually flimsy. It creates interim duties...when we started out, the combined anti-dumping and countervailing duties, as you'll recall, were 27%; after five years of litigation we're down to 10% plus—10.8%, I think it is now—so this agreement should protect us from that.

In terms of the policy latitude that provinces have, that is something that will be worked out. There is a clause in the agreement that provides for us to examine potential exit ramps, based on provincial policy change. That does not imply that every province should have exactly the same stumpage system or forest management system. There are different models that could achieve the same result.

[Translation]

Mr. Pierre Paquette: As you probably know, Quebec has reduced the volume of timber cut by 20 per cent. Communities and the industry are therefore in need of some assistance. This assistance could very well be viewed by the Americans as a form of subsidy.

Alberta could also be affected by the disease affecting trees in British Columbia. The Americans could use this situation as a pretext for resurrecting the dispute. This time around, we'll need to have an effective dispute resolution mechanism in place.

If I have any time remaining, perhaps I could ask the minister to answer another question.

[English]

The Chair: I am sorry, Mr. Paquette, you're over time already. We have to give everybody a chance.

[Translation]

Mr. Pierre Paquette: I'd simply like a list of Quebec sawmills that have been excluded from the agreement.

[English]

The Chair: Response, Mr. Minister.

Hon. David Emerson: We'll be happy to provide the list of mills that are excluded. The whole purpose of the agreement is to ensure that policies that have been announced, that are in place, are protected. If Quebec has made policy changes—I know their annual allowable cut is down, and I don't know what they've done with their stumpage system—the agreement is designed to protect those policies that were in place at the time of the entering into this agreement.

• (1555)

The Chair: Thank you very much.

Now to the government side, to the parliamentary secretary to the trade minister, Ms. Guergis, seven minutes. You can share your time if you choose.

Ms. Helena Guergis (Simcoe—Grey, CPC): Thank you, Mr. Chair, and I will in fact be sharing some of my time with the honourable member from Kelowna—Lake Country, since he has a number of constituents who have asked a number of questions about this new deal.

First, Minister, I'd like to tell you it's good to see you here today. I do want to give my appreciation to you. I know we requested you come before committee at the first meeting of this committee, and almost immediately you responded with yes, so we very much appreciate your respect for this committee and the work we do here.

We also appreciate the good work you've done on this file. I know in your previous position you worked lengthy hours, and continue to do so, and you were able to secure a deal for Canada. We very much appreciate this.

Thousands of our forestry workers, of course, have been affected, and their families have been hurt over the last few years because we haven't been able to negotiate a deal, and you were successful, so we appreciate that.

The \$4 billion—it's my understanding it's the highest return that has ever been achieved in negotiations to date. Perhaps you can expand on how you were able to improve upon some of the rumours and what we had heard prior to your reaching this agreement.

Hon. David Emerson: What we have seen in the last few months are two factors at play at the same time. One is the much more positive, constructive tone of the Canada-U.S. relationship. I really

believe the Prime Minister and the President have struck a much more positive, cooperative tone, and I think there's a recognition on the part of our two leaders that the Canada-U.S. relationship is a fundamental building block of our competitive success going forward.

For too long, NAFTA has been defined in terms of disputes, rather than in terms of building on the opportunities inherent in NAFTA and the different ways we can build on NAFTA to strengthen our economy.

The second factor that I think has been in our favour has been litigation. I am a great believer, always have been, that litigation is a tool. It's a tool to get you leverage in your negotiations, because fundamentally I believe you have to negotiate a resolution to most disputes. Certainly this one is big enough and has dominated the relationship to such an extent that, other than a negotiated agreement, I don't think there is a solution. So we've had the leverage of some litigation wins, and we've had the leverage from a more positive relationship. I think those two coming together when they did have allowed us to make a move that gives us the opportunity to start building NAFTA beyond where we've been for the last 10 years, and build our competitive position against some of the real threats out there that are largely non-North American in nature.

Ms. Helena Guergis: I would agree with you on that, because it appears to me that mainly American lawyers and a lot of lobbyists seem to be opposing this deal with a lot of scare- and fear-mongering. I guess they will be the ones who no longer will have the opportunity to earn dollars because of litigation.

Hon. David Emerson: There's no doubt about it. Hundreds of millions of dollars have been spent on lawyers and association staff, and untold millions are spent by Canadian companies that have to comply. People don't realize that this dispute, unlike all the previous disputes, is not just a countervailing duty dispute. In other words, they are alleging more than just subsidization in Canada; they're alleging dumping, which they have never done before. When you allege dumping, once you get into a dumping case, you can be in it for a decade or more and never really get out because administrative reviews go on and on. The basis for calculating dumping margins is very, very elastic, and we could be in this for a very, very long time. So, to me, it's really an opportunity to get this mess out of the way and begin to think larger about the future of the industry and the North American economy.

• (1600)

Ms. Helena Guergis: I just have one further comment and then I'll pass to my colleague.

The bigger part of the industry, the big companies, could probably afford to go on in litigation for a very long time, but small and the medium-sized businesses can no longer afford to continue with litigation. I think this deal is really looking out for the small and medium-sized businesses.

Hon. David Emerson: There's absolutely no doubt: the bigger you are and the more cash you have on your balance sheet, the more likely you are to want to ride this thing out because you have the financial capacity to ride it out. There are all sorts of small companies out there that become pretty cheap acquisition targets. So I think it really is a world where the bigger you are and the more efficient you are, perhaps the less likely you are to like a negotiated solution.

But even at that, a lot of the big companies have come aboard, and they are saying it's time to get on with creating some stability and building the industry and the business going forward. They want to invest, and some of these companies have hundreds of millions tied up in deposits in the U.S. That money could be redeployed at some fairly hefty returns in terms of new technology, new mills, and new opportunities, often not even in softwood lumber but in other parts of the business, such as pulp and paper, OSB, and value-added products.

The Chair: Mr. Cannan, you have time for one short question.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chairman, and thank you to the honourable member and the parliamentary secretary to Minister Emerson. You're doing a great job, and thank you for your questioning. Coming from British Columbia, as does Mr. Julian from the NDP, as well as the Honourable Minister Emerson, I can say that we have a serious issue.

First of all, about 55% of our lumber exports are to the U.S. So this is a serious and significant issue, and obviously one that provides some certainty and stability to the industry. The majority of British Columbians are very thankful, as are all Canadians for that matter.

Also, the issue that is of concern in B.C. as compared to the rest of Canada is something called the pine beetle. I'm sure everybody's heard about it. If you haven't seen any pictures you can go online and look at it. It's destroying our British Columbian forests. Minister Emerson, maybe you could just allude to that a little bit.

I also wanted to thank you. As a member of the government, I had an opportunity to be in the room for some of the negotiations. I don't know the position each of you takes with respect to coming to the government side, but I want to say that your wisdom, expertise, and knowledge have been invaluable to all British Columbians and Canadians, and I want to thank you for putting your own personal reputation on the line to help all Canadians with this deal.

As a British Columbian, I would like to know—and time is not on our side because of the pine beetle—what would happen if we didn't sign this deal, and what the implications would be for our industry and specifically for B.C.

The Chair: Mr. Minister, I'm going to have to ask you to give a short answer. We're over time already on the Conservatives' side.

Hon. David Emerson: Let me just quickly say that the pine beetle is creating a massive disaster in British Columbia, and it's spreading to Alberta. Nobody in Canada should feel that they will be exempt from this kind of pestilence going forward. It is the result of climate change and other factors. It has created a serious problem, because the industry in the United States is absolutely paranoid that the

timber that's been affected by the pine beetle, which is being harvested on an accelerated basis, will flood the market. So it's been very important to get this framework agreement put in place and to get the kind of surge mechanism we have in place that will give a reasonable amount of headroom to us to deal with the pine beetle and other related problems.

Ultimately, pine beetle wood is going to decline in value. We're going to have to develop other products in other markets, but there is a crisis. What will happen after the pine beetle is that the rest of the forest base will not be as healthy. We will not have, 10 years from now, the same allowable cut that we have today. There will be dramatic reductions, and we have to pay an awful lot of attention to ensuring that communities that are dependent on mills processing pine beetle timber have an alternative source of either timber or other economic opportunities.

The Chair: Thank you.

Mr. Julian, you have seven minutes.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you very much, Mr. Chair.

Thank you, Mr. Emerson, for being here today. As you know, I am not a fan of this deal. I think it's a sellout of Canadian interests.

I'd like to start with the chapter 19 provisions. At this committee last year, prior to our win on August 10, it was very clear that chapter 19 needed to be used in order to be effective. We know as well from testimony from members of the forestry sector from across the country that the Americans' objective was to destroy chapter 19, that they did not like it, and that they felt it provided for Canadian rights that they did not want to see under NAFTA. Effectively, as this deal indicates and as observers have indicated, this deal kills the possibility of using chapter 19 in the dispute settlement mechanism.

So my first question is very simple. Why did you not use chapter 19, and why did you effectively give it up?

• (1605)

Hon. David Emerson: That's a fair comment. The reality is that the many chapters and incarnations of the softwood lumber disputes over 20-plus years have tended to be, since NAFTA, all through chapter 19. We've been contesting countervailing duties throughout this whole time, using chapter 19. There are over 20 legal cases out there, as you know, that are either chapter 19-related or WTO-related.

The reality is that chapter 19 is imperfect. Chapter 19 is the one that allows spurious cases that are not well substantiated to be launched, which is what we have today. You can make allegations about dumping, you can make allegations about subsidy, and you can put in place 27% duties, all under chapter 19. So chapter 19 is being used, and at the end of the day I think we all recognize—and Mexico has come to recognize—that it's a pretty expensive proposition to take these battles right down to the final legal victory. Indeed, there may never be a final legal victory if some of the protectionists have their way in the U.S.

So this framework says that if we can't fix chapter 19 and get a more rigorous test for when a countervailing duty can be brought, or a more rigorous test for when an anti-dumping duty can be brought, or a more timely resolution of the dispute, then let's have an agreement that precludes these disputes and gets back to a basis of stability for the industry.

That's the trade-off we've made. We've decided that we're far better off to have stability, to have the Americans swear off taking actions, and to get on with a more stable and predictable environment to build the industry.

Mr. Peter Julian: But you realize that this means it becomes inoperable for us, and the provisions of chapter 19 allow us to withdraw all NAFTA benefits when there is non-compliance. Effectively we've had non-compliance. So I come back to my question. Why did you choose not to use rights that we already have and that would have been effective?

Hon. David Emerson: We have not given up any legal rights at this stage. We're continuing to hold all our legal options open. If and when this deal is tidied up and put into an acceptable legal format, we'll cross the bridge as to how to deal with chapter 19 and the legal precedents that have been set through this case.

But there is no doubt about it that chapter 19 requires goodwill on both sides. We have not had goodwill from the U.S. side on chapter 19 for some time now. We believe that if we rebuild goodwill and begin to look at ways in which NAFTA can be fine-tuned and improved, that will be better for us. That will improve the likelihood that chapter 19 can be worked on and fixed, but in a collaborative, constructive way, because if you don't have your biggest trading partner willing to work with you on it, you're not going to get anywhere. You can throw all the lawyers you want at it, but it's just not going to work.

Mr. Peter Julian: Well, you used to believe in chapter 19 and linkage. Your comment from a few years ago, which I know you'll remember, was that when we go head to head with the Americans in one sector, including forestry alone, we're going to be whacked, and we'll be whacked down one at a time. In this case we've clearly been whacked.

Mr. Chair, how much additional time do I have?

The Chair: You have three minutes. I'm allowing you an extra minute because the Bloc and the Conservatives both took an extra minute.

Mr. Peter Julian: I'd like to go on to the issue of consultation with the forestry sector and the provinces, because concerns have been expressed by the Premier of British Columbia about the anti-circumvention clause—the fact that the version he saw when he gave conditional approval did not contain that clause.

Many people in the forestry sector have said they felt threatened and that the government was saying, “You sign on this deal and support this deal or you're not going to have support for litigation, or any continuance of fighting for Canadian rights”.

Can you tell the committee today that assurances have been given to the forestry sector that if this deal is rejected by the forestry sector they will continue to be supported by the Government of Canada for litigation?

• (1610)

Hon. David Emerson: Well, what we have told the industry is to examine carefully the choices here, the choices between continuing litigation and a world in which government support may well be forthcoming but will almost certainly be countervailed. There's almost no chance that the Americans will not countervail any program to provide long-term support for the industry. So everybody just has to understand what the options are—litigation, possibly government support, but a long, extended period of uncertainty, with new measures that they can target in terms of countervailing duties, because you're going to put in some new measures of support.

On anti-circumvention and the B.C. forest policy changes, I've had extensive discussions with Premier Campbell and Minister Coleman in B.C. We are working with the embassy, with International Trade Canada, with U.S. Commerce, and with the U.S. trade representative's office on the changes that B.C. wanted to put in place for implementation in September. We believe those policy changes will be found acceptable as part of this agreement and therefore not a problem.

As Minister Coleman said, this is really the final installment of the major changes they began to put in place four or five years ago, partly in response to trade actions in the past, but also in response to the need to have a much more market-based way of valuing crown timber.

Mr. Peter Julian: The draft agreement has been sent around. There was initially a 24-hour deadline sent to selected parties for folks to provide feedback on that. I understand that's now been extended to Wednesday. This is wholly unreasonable. It's outrageous, in fact, that an agreement that would have such huge implications is something the government, your ministry, is providing only a few days to provide feedback on.

Has that deadline been changed, and what's the rush about ramming this through?

Hon. David Emerson: I think members around the table will realize this is a very complicated business. That said, there's not much here that people haven't seen before, because they've been digging around in this dispute for four or five years, many of them much longer than that. I've been involved in it myself for eight years. So I suspect the amount of new information that has to be digested is not as great as you might think.

However, if people need a little more time to assess some of the issues that are in play here, we'll give them more time. We have to get going, though, because it will require Parliament to execute this agreement. We're going to have to have a framework that will allow and enable provinces to put in place an export tax, which could come into play at the low end of the market, and return the revenues to that province for their use. That's going to require some legislative acts on the part of Parliament. I don't want to wait until fall on that.

We're going to have to deal with the issue of quota, because some provinces in bad markets will opt to have lower duties but subject themselves to a quota arrangement at the bottom of the market. That will require some legislative and regulatory clarity as well. And we have all the complexities around this, as members have said—dispute resolution, unwinding of deposits, who's in and who's out, remanufacturers. It's a very complex agreement.

I can tell you, if we do not put people's feet to the fire, if we don't push them very hard, we could be talking like this at this time next year. Because I just know that this is an issue you could spend your whole career on, and we think it's time to press on. We'll be reasonable, but we're not going to wait forever.

The Chair: Thank you, Minister Emerson.

Now, to the second round, starting with the official opposition, Mr. Temelkovski, I believe.

You get six minutes, to make up for the extra minutes the others got. Go ahead, please.

• (1615)

Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.): You are most humble, Mr. Chair.

Thank you very much, Mr. Minister, for showing up and making this session out of camera.

I'd like to read a quote from someone:

I would seek a clear commitment of the United States to comply with the NAFTA ruling. If the Canada-U.S. trade relationship is to remain a fair, stable, rules-based system, then the United States has a moral obligation to return those duties to Canadian lumber companies.

There can be no question of Canada returning to a conventional bargaining table, as the U.S. Ambassador has suggested.

You don't negotiate after you've won.

The issue is compliance.

And achieving full compliance should be the objective of the Prime Minister.

I would also not hesitate to point out that Canada possesses the right to retaliate in the case of non-compliance.

That was quoted from the Prime Minister in September 2005.

Mr. Minister, I have two questions. In your view, is half compliance like being half pregnant under the NAFTA deal? Secondly, what sort of a precedent does this establish for future NAFTA agreements? Is it for Canada to recover less now and in the future?

These are the types of questions that are being asked in my riding. These are the types of questions I'm hearing from Canadians who are calling in from all over and from people I'm meeting with as well. Maybe you can shed some light on this.

Hon. David Emerson: I really hope you'll tell the people in your riding that softwood lumber and the trade actions involved in softwood lumber have been going on for a very long time. We're not in a world where we can choose between perfection and what we have today. Perfection is just not out there. What is out there, if we don't have some kind of a negotiated settlement, is more litigation, more uncertainty, and possibly a broadening of this dispute.

Remember, the timber that is used to produce softwood lumber is also used to produce pulp and OSB; it is used in a range of products. If anybody thinks there is no scope for a broadening of the lumber dispute, they're just dead wrong—it's the same timber. If they can make the allegation about lumber, they can make it about OSB or about plywood.

That's the reality we face. And against that reality we've negotiated an agreement that under current market circumstances has no quota and no tax. It gets us over 80% of our money back, and

of the roughly 20% that stays south of the border, half of that will go to initiatives that will be of benefit to the industry in North America, including the Canadian industry.

Is it a perfect deal? No. Do I think there's a perfect deal out there? No, I do not. I've been in this business long enough, and I think this is one of those deals that you might wish perfection was the alternative, but it isn't.

Mr. Lui Temelkovski: You're comparing it to perfection and something else, which is unattainable perhaps. Would you say this is now placing us on a slippery slope?

Hon. David Emerson: Not at all. I would say that it is looking at our NAFTA relationship, which has been strained in recent years. It has been strained because some disputes, the most high profile of which is softwood lumber, are creating negative attitudes on both sides of the border about NAFTA. To me, NAFTA is a critically important element of Canada's competitive success going forward.

Over the last 15 years we've been able to sell Canada as a location of choice to foreign direct investors, for example: invest in Canada and you can have access to the North American market. The problem is that all the disputes we've had and the uncertainties that have been created are causing investor anxiety. If we don't get rid of the anxiety around NAFTA and the collaborative relationship with our largest trading partner, we're going to start losing increasing amounts of foreign direct investment. They're going to go to the United States. Why wouldn't they? Why come to Canada if you might find yourself on the wrong end of a trade dispute or a border issue?

This is part of putting us on a positive trajectory to re-establish and re-energize NAFTA in a way that will benefit our competitive position and our industries—not just our forestry industries, but industries across the board.

We have to do that, and in fact if we do not do that, we're going to get hammered by the Chinese, the Indians, the Koreans—and the list goes on and on. We just have to put ourselves in a position where North American supply chains can be integrated and efficient so that we can take on the real competitive threats that are out there.

• (1620)

The Chair: Thank you, Mr. Temelkovski. Your time is up.

We'll go now to the Bloc, to Monsieur André.

[*Translation*]

Mr. Guy André (Berthier—Maskinongé, BQ): Minister, thank you for agreeing to meet with us and for agreeing to let this meeting be open to the public, since we are discussing very important issues. Of course, there are those in Quebec who are very happy with this agreement. Others are concerned because the costs incurred in connection with this dispute by the Coalition for Fair Lumber Imports will be reimbursed with our money. That outcome is somewhat unsatisfactory to us, but it has alleviated the crisis, at least for the time being. Nevertheless, some people are concerned.

First of all, with respect to quotas that have been set, is there room for the independents that have not exported any softwood lumber to the United States in the last five years? Moreover, I read that the Free Trade Lumber Council was worried that proposed taxation measures would hamper business opportunities for the Canadian industry when the industry flourished, but conversely, would marginalize the industry when the market was in a decline. As you know, there are no taxes above \$355 whereas below that threshold, export taxes payable hinder Quebec and Canadian companies somewhat.

You mentioned draft legislation on export taxes. When can we expect a bill to be tabled?

[English]

Hon. David Emerson: Starting with your last question first, it's my expectation that we will require a ways and means motion some time, hopefully before the spring session of Parliament is complete. I can't tell you with precision when that will be ready, but we're certainly working to get it done for spring.

In terms of quotas, there is no quota if you don't want a quota. We have provided an option so that a province—and this largely came from Quebec and Ontario, which wanted this option—in weak markets could pay a lower export tax but subject itself to a quota. So we did it, really, in the interests of Quebec and Ontario. It's unlikely that the quota option would be the choice of most western provinces, although they could choose that. The quota will be based, already, on an average of 34% of the U.S. market, and then prorate the share, in your case, of Quebec for the years 2001 through 2005. That gives them the basis on which they will calculate their quota.

I believe that's a pretty decent compromise, and that was what Quebec had asked for. We've had good support from the Government of Quebec. The vast majority of companies in Quebec have been supportive. I realize that the Free Trade Lumber Council, and Mr. Grenier in particular... I was one of the founding members of that organization, so I know that their whole *raison d'être* is to fight for full free trade. And it's a good fight to have, but at some point we have to choose between the balance of interests in the country and the national interest. I believe that now is the time to move on, and the Free Trade Lumber Council, I'm sure, will carry on the good fight for perfection in free trade, but I think I'll be dead and buried when they arrive at their destination.

The Chair: You have about one minute.

• (1625)

[Translation]

Mr. Guy André: I would have liked to hear more about the repercussions of a higher Canadian dollar and the whole issue of export taxes, both above and below the \$355 US threshold. What impact will this new industry standard have?

[English]

Hon. David Emerson: In the negotiations, consideration was given to whether there should be some kind of exchange rate adjustment mechanism that would affect the triggers and the duties, but if we were to do that, it would have been a mechanism that would go both ways. It would help you when the dollar was appreciating, but it would hurt you when the dollar was depreciating. It was decided, at the end of the day, that it was just a gamble that was a complicating factor that would not help.

In general, I would say this: the higher value of the Canadian dollar will probably contribute to keeping lumber prices higher rather than lower over the next few years, simply because it keeps the cost base of Canadian production up, which is a huge part of the U.S. market, and probably keeps prices up. But predicting prices, as you know, is a mug's game.

The Chair: Merci, Monsieur André.

We'll go now to the government side, starting with the parliamentary secretary to the Minister of International Cooperation. Then you may split your time if you wish; I understand you might.

Go ahead, Mr. Menzies.

Mr. Ted Menzies (Macleod, CPC): I will be doing that. Thank you, Mr. Chair. I would like to give my colleague Mr. Lemieux an opportunity to ask a question.

I know, Minister, that you need to run quickly, but thank you once again for attending this shortly planned meeting.

I'd like to ask a question about the dispute settlement mechanism. This has far broader implications than just softwood lumber. It's been a pet peeve of mine for a long time, dealing with many commodities. In relation to the frivolous challenges that get launched against countries—and we've been the whipping boy of many of those challenges—is there a chance here, an opportunity through recognition of the protectionist support in the U.S. that has created this Lumber 4—and if we hadn't fixed it, Lumber 5 close on its heels—for us to get some solid foundation behind support dispute settlement mechanisms that we can use to promote these disputes we have in NAFTA?

Hon. David Emerson: That's a good question. I look at dispute settlement as not being just chapter 19, but also as being influenced by domestic courts in the U.S. Some of our chapter 19 cases have migrated into domestic courts in the U.S. The WTO dispute settlement has a bearing on it. As I think most people around this table will know, the WTO mechanism—which is based on an internationally agreed to legal framework—is far from perfect. We have many of the same problems with the WTO, and more, as we do with chapter 19. Under the WTO, you do not get your duties back if a country has been proven to be wrong in levying those duties. The only relief you have is prospective, meaning that those duties have to be eliminated within an appropriate period of time, but you may have the right to retaliate.

Well, I have to tell you, Canada is the most trade-dependent country among all the industrial countries in the world. Retaliation for us is a no-win. We have trouble finding a few million dollars when we start to launch a consultation on retaliation, simply because we depend so much on imports to use as inputs in production that we end up hurting ourselves from retaliation more than helping ourselves. My hope is that we will get some improvements through a successful WTO round around such issues as we are touching on over here—the definition of dumping, a discussion of zeroing. A number of issues around definitions, trade remedies, and so on will be very important; if we can get them into the WTO, we can have a better shot of migrating them into NAFTA, either through legal decisions or perhaps through some discussion and negotiation.

It's going to be an incremental process, in my view, to gradually upgrade dispute settlement. Today dispute settlement is...I don't want to say it's laughable, but it's not a recipe for a healthy industry. If you're a small operator, any time you can be lambasted with 27% duties and have to pay out that cash for four or five years, you'll be very fortunate if your company hasn't gone bankrupt by the time you finally get relief under chapter 19. The same would apply in the WTO world.

Dispute settlement has to be a huge priority for countries, but in the current political environment in the United States, I would not argue that now is a great time to be reopening NAFTA. It may not even be a good time to reopen NAFTA in Canada, so let's work with what is practical and incremental, try to make further progress, and put a stake in the ground each step we make.

• (1630)

The Chair: Thank you, Mr. Menzies. Your time is up.

Mr. Minister, I know you don't have any more time today.

I would like to thank all the members for their good questions and I'd like to thank you, Mr. Minister, for your answers.

We will end this part of the meeting. We'll just close things down for about three minutes as the minister and his officials clear, and then we do have one motion regarding the membership of the subcommittee on agenda to deal with. Then we'll end the meeting at that time.

We will just suspend for three minutes.

The Chair: Could we have the members back at the table, please. We have one motion to deal with here.

This motion by Mr. Cannan has been given the appropriate 48 hours' notice.

Mr. Cannan, you can just read the motion—it's very short—and then explain briefly why you propose this makeup for the subcommittee on agenda and procedure. If there is discussion, we'll entertain that and get to a vote, and then our meeting will be over for today.

Mr. Cannan.

Mr. Ron Cannan: Thank you, Mr. Chairman. I think it's straightforward housekeeping. The motion you should have in front of you is that the subcommittee on agenda and procedure be composed of the chair, the two vice-chairs, a government member,

and a member of the New Democratic Party. The reason for this is to help set the agenda and direction for the committee.

• (1635)

The Chair: Okay. The one thing that did come up is that as chair of the committee, I'm on the subcommittee on agenda and procedure. I mentioned this last time, I believe, but if I'm the only member for the Conservative Party, then it's hard for me to carry out my responsibilities as chair—in other words, just running the meeting—because then I'd have to lobby for the government position on issues as well. So this would have another member for government and also have a member from the New Democratic Party on the committee.

Is there any discussion on this before we put it to the question?

Mr. Julian.

Mr. Peter Julian: The New Democratic Party is already on the subcommittee on agenda and procedure as the other party representative. So currently there are four: the chair, the two vice-chairs, and the representative of the other party, which is me.

The Chair: Okay, yes.

Mr. Peter Julian: And that's an appropriate structure for this committee.

The Chair: This motion recommends that there be another government member besides the chair. So what are you saying, Mr. Julian?

Mr. Peter Julian: I'm saying I'm opposed.

The Chair: Mr. Paquette.

[*Translation*]

Mr. Pierre Paquette: After listening to the motion, Mr. Chairman, I checked with the Whip's office. To our knowledge, no committee works this way. I wouldn't want us to set a precedent.

[*English*]

Ms. Helena Guergis: That's not true.

[*Translation*]

Mr. Pierre Paquette: We had agreed that each party would be represented on the steering committee. By expanding the committee, we would be making it more unwieldy for no good reason.

[*English*]

The Chair: Actually, Mr. Paquette, the industry committee has this structure. They've recently accepted it, and I believe it's for exactly the reason I mentioned. The committee does operate by consensus anyway. It's not like a vote is going to make a lot of difference, because if we can't reach consensus, then we go to the whole committee. But if the subcommittee on agenda and procedure doesn't reach consensus often, we'll just end up setting the agenda for the committee at the whole committee. That's what happens in practice. This is just intended to take the chair out of the position of having to chair the meeting and also put forth the government's desires on issues. That's the sole purpose of this. So it's not like one more vote is going to make any difference, because we operate by consensus.

Is there more discussion?

Ms. Guergis.

Ms. Helena Guergis: Thank you, Mr. Chair.

I just want to point out that the status of women committee actually agreed to do this as well. I think in keeping with the spirit of having a good working relationship around the table, it would be a good idea to go forward with this.

I think we did a really good job today having the minister here, and I really appreciate all the great questions and the cooperation we've had around the table. I think this just extends that cooperation.

The Chair: Okay. Any further discussion before we go...?

Mr. Cannan.

Mr. Ron Cannan: I just want to reiterate that that was the reason: to try to utilize our committee time more effectively. If we sit around here for half an hour and try to figure out what's on the agenda, we waste half an hour. So we have a subcommittee that tries to build bridges and that works together, as in our first meeting. I think we all have the same objective. I was trying to be accommodating in utilizing our time as efficiently and effectively as possible.

The Chair: Mr. Temelkovski.

Mr. Lui Temelkovski: I believe in our first meeting we did pass a motion and registered as a steering committee who will make up that committee.

The Chair: Yes, and that motion did not have the extra government member, so the chair could be taken out of the position of having to present the government position. That's why this motion has come forward, to change that.

Mr. Lui Temelkovski: My understanding so far on the steering committee is that the chair has the same right as all the other members. It wasn't a non-voting position; it was a position of representing your party and being the chair at the same time.

The Chair: That's correct, Mr. Temelkovski.

The issue is that you don't settle issues at the subcommittee meeting by votes anyway; there has to be agreement. I really don't care which way the committee goes on this; it's up to you entirely, of course, as always.

• (1640)

Mr. Lui Temelkovski: What was that?

The Chair: The clerk just explained to me that in fact at the subcommittee meeting the chair wouldn't get a vote unless there was a tie. I guess that's the normal way business is done; however, this is a committee that operates by consensus.

Are you ready for the question or do you want a little more discussion?

Mr. Menzies, go ahead, please.

Mr. Ted Menzies: Could we have a point of clarification on that?

If the planning committee did come to a vote, then the government side wouldn't have a vote unless it was a split decision. Is that correct?

The Chair: That would be correct.

How you determine consensus is always an issue. You've probably been on many committees in which you've tried to

determine what consensus means. There is no one definition, of course, for consensus, but that's certainly an issue.

Are we ready for the question?

(Motion agreed to)

The Chair: Is there any other business before the committee before we adjourn?

Mr. Paquette, go ahead, please.

[Translation]

Mr. Pierre Paquette: Can you tell me whether or not a meeting is scheduled for Wednesday?

[English]

The Chair: Actually we want to have a subcommittee on agenda and procedure meeting tomorrow at 3:30 if we can. If that isn't going to work, then we'll have to have it at the normal committee time on Wednesday. Again, I seek your guidance here.

[Translation]

Mr. Pierre Paquette: I won't be here Wednesday and I want to be certain that the subcommittee will not be meeting. I do want to be there when future business is discussed. Is there any chance the steering committee will be meeting on Wednesday?

[English]

The Chair: The plan was to have a subcommittee on agenda and procedure meeting tomorrow at 3:30, and that committee will decide on the agenda and take it to the full meeting probably on Wednesday. So a replacement would be necessary.

Yes, Mr. Temelkovski?

Mr. Lui Temelkovski: Who is the member of the Conservative Party that will be on it?

The Chair: Mr. Cannan, I guess.

Mr. Ron Cannan: I got the losing end of the straw. That's another meeting.

The Chair: Monsieur LeBlanc, go ahead, please.

Hon. Dominic LeBlanc: Mr. Chair, I think that was a useful exchange with the minister, and we were able to get some questions in, but we were hoping it would be a two-hour visit. We understand he had to go to a cabinet committee meeting.

I don't know how you want to proceed, but my hope is that you, on behalf of the committee, can invite him to come back to complete the discussion as quickly as possible. If you'd like a formal motion put forward to that effect, I'd be happy to do so. We had some questions we were hoping to ask, and even in the five-minute rounds we just ran out of time.

The Chair: I would suggest—and this is a good test for whether the subcommittee on agenda and procedure works or not—that members of each party get their input to the member representing them on that subcommittee, and we'll take it from there. I would be very surprised if that weren't one of the things brought to the subcommittee meeting.

Mr. Maloney, go ahead, please.

Mr. John Maloney (Welland, Lib.): My intervention is the same as Mr. LeBlanc's. We were scheduled for two hours, but we got three-quarters of an hour. At least another hour would be appropriate under the circumstances.

The Chair: Send that message to your representative on the subcommittee.

Ms. Guergis.

Ms. Helena Guergis: Thank you, Mr. Chair.

I want to relay to the committee that the minister has told me he would be more than happy to come back at another time to finish the discussion we started today. My suggestion is that when we start to get more information on the final draft agreement, that would be the appropriate time to have him come in and explain it. But he has indicated that he looks forward to the invitation.

The Chair: Thank you.

Or course, this will be a discussion for the subcommittee.

Mr. Julian.

•(1645)

Mr. Peter Julian: Mr. Chair, just to clarify, are you calling a meeting of the subcommittee on agenda and procedure for tomorrow afternoon?

The Chair: Tomorrow at 3:30 p.m., yes.

Mr. Peter Julian: I will have to get somebody to cover for me elsewhere, but I will be able to attend.

The Chair: We have to do that, especially if we want to take it to the full committee on Wednesday.

Mr. Peter Julian: Where will that be?

The Chair: A notice will be sent.

All right. Is there any more business?

Thank you very much, all of you, for your cooperative approach here. We'll continue that, of course.

The meeting is adjourned.

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