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—
Chair

Mr. Leon Benoit

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•(1105)

[English]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)):
Good morning, everyone.

Pursuant to Standing Order 108(2), the House of Commons Standing Committee on International Trade is undertaking a study examining the opportunities and the challenges Canadian businesses face in a number of regions around the world. In particular, the committee is interested in markets where two-way trade and investment flows with Canada may be underdeveloped currently and have the potential for strong future growth. The committee is specifically interested in identifying and removing the obstacles that stand in the way of stronger economic ties with those markets. What can the Government of Canada do to help Canadian businesses take better advantage of trade, investment, and other international business opportunities in these regions?

Today, we will be receiving evidence from Statistics Canada, from the Canada Border Services Agency, and from DFAIT. The purpose of the meeting today is to understand how trade statistics are gathered, analyzed, and used in the context of international trade, especially for us, in planning future trade strategies.

We have today with us, as witnesses: Mr. Craig Kuntz, director of international trade with Statistics Canada; Art Ridgeway, director of balance of payments at Statistics Canada; Raymond Bédard, director of the partnerships division, admissibility branch, with the Canada Border Services Agency; and Anthony Burger, chief economist, office of the chief economist at DFAIT; and Dan Ciuriak....

How do you pronounce your name?

Mr. Dan Ciuriak (Acting Director and Deputy Chief Economist, Policy Research and Modelling Division, Department of Foreign Affairs and International Trade): “Chur-ee-yak”.

The Chair: “Chur-ee-yak”. Thank you. I should have asked you, and I did meet you earlier.

He's the acting director and deputy chief economist, policy research and modelling division, with DFAIT.

Thank you very much, gentlemen, for coming today. I know I'm very much looking forward to your report.

The comment made by one of you at the table, and I won't say who, that this might not be the most thrilling topic, I don't agree with. I'm looking very much forward to your comments today. Nobody else agreed with it either, by the way.

So please, go ahead in the order I presented, starting with Mr. Kuntz.

Mr. Craig Kuntz (Director, International Trade, Statistics Canada): Thank you, Mr. Chairman.

Today I'm going to divide my time with my colleague from the balance of payments division. We're going to give you a very brief overview of trade statistics and the balance of payments. What I'm going to do is talk about merchandise trade statistics. I'm going to tell you a bit about what we do and how we do it. Then I'm going to identify some of the quality issues we have with the merchandise trade statistics, and then I'll describe some of the actions we've taken in concert with our colleagues from Canada Border Services Agency in the last few years to address some of those quality issues.

In terms of my program, we have responsibility for producing monthly merchandise trade statistics. We do that on both a customs and a balance of payments basis. We also have price indices that we measure so that we can deflate the trade data. We also maintain what we call the harmonized commodity classification system, which is an internationally agreed-upon classification of merchandise. Our representative on that for Canada is the CBSA. It's a classification that's used widely throughout the world.

I call the other part of my program our “non-core” program. I call it that because it's not part of our core funding. We do a lot of this work on a cost-recovery basis with our policy colleagues. We've built what we call importer and exporter registers; we take information from the merchandise trade, aggregate those data on a company basis, and link it to our business register so that we can talk a bit about the characteristics of the importers and the exporters, the industries they're in, their employment size, etc.

We also produce what we call a world trade analyzer, which is a database we purchase from the United Nations statistical office. It includes the trade data from all of the countries. Then, through an algorithm, we try to reconcile those data, try to better understand the partner trade flows. We basically create a synthetic database of world trade.

The other activity we undertake is reconciliations. We deal with our bilateral partners and try to resolve some of the quality issues that I will mention later. We try to understand what is causing some of the differences between the import and export statistics.

The import statistics are generally viewed to be more accurate than export statistics. That's generally because there's been an interest on the customs side in terms of collecting duties, and lately GST and things like that, which leads our colleagues at Customs to be more focused on the inward flow of goods than on the outward flow of goods. In terms of our data sources, we get data from CBSA on the import side. On the export side, since 1990 we've had a data exchange with the United States: we use U.S. import data that we receive from the U.S. Census Bureau as Canadian exports to the United States, and vice versa; they use Canadian imports as U.S. exports to Canada in their trade statistics program.

The other part that we receive is non-U.S. exports. We have a variety of mechanisms for getting those data. Some of it is directly through CBSA, through paper forms called the B13A Export Declaration. The other program we run is called the computer-automated export declaration, and we do that in partnership with CBSA. They submit the data via computer; the data go jointly to CBSA and Statistics Canada. That's how we get the data.

In terms of some of the quality issues I mentioned, I have a list here. This is not a new list. If I go back to 1926, one of our former chief statisticians wrote a paper called "Canadian Trade Statistics; Imports and Exports: what they are; how to use them". He identified all of these issues back in 1926 as issues related to the quality of trade statistics. There was a subsequent paper written in 1988 by one of our assistant chief statisticians that again went through errors in foreign trade statistics and proposed the methodology that we use to create what I mentioned earlier—the world trade analyzer database—in terms of doing an algorithmic reconciliation of those data.

The two issues I would like to focus on today are export under-coverage and misallocation of exports.

Export under-coverage refers to exports that are not reported to Canada Border Services Agency, so these are goods that are leaving the country without proper documentation. This is a problem we've been aware of for a long time. It's one of the problems that led to the data exchange with the United States when, in the 1970s, we did a number of trade reconciliations with them. As those differences became more acute, we finally signed a memorandum of understanding with them in 1989 to initiate the exchange of data starting in 1990.

•(1110)

The other issue is misallocated exports, and that is goods that are leaving the country. In this case they could be going through a second country. They may be declared. For instance, they could be goods that are going to the United States that are being cleared for consumption in the United States, but then are subsequently being destined to a third country, be it China or Mexico. This is a different issue for us, because at the aggregate level those trade flows are in our data, but they just aren't in the right country allocation. That's the concern we have with that.

I'll show you a graph, and this is perhaps one of the most egregious examples of the combined effect of these two factors. There is also perhaps some valuation issues that are in here. What we have in the dark blue line on the top is Mexican imports from Canada. On the bottom we have Canadian exports to Mexico, as reported by Statistics Canada. These are the two official trade statistics series, and you can see they diverge quite markedly.

These are measuring theoretically the same transactions, and they should be the same. What happens often is we have goods that are going through the United States, either in transit or they've been cleared for consumption in the United States, that are subsequently exported to Mexico. That's what's causing this problem. There may be markups as well for those goods if they're going through middlemen.

In terms of what we've been doing for the last few years, our colleagues at CBSA have been very cooperative, and they've consulted with us quite a bit. In 2003 they put in what they call administrative monetary penalties, and that's where they can actually fine exporters for not reporting correctly or not reporting at all. They have also put in place new regulations that require exporters to declare their exports prior to the goods leaving the country.

The one exception to that now is where they've started to negotiate with the marine and the air carriers what they call no load MOUs, which require that the carriers verify in advance that they have all the proper documentation, and if they do have all that documentation, then they are allowed to submit, I believe, in some cases up to a day later the transportation documentation to CBSA.

The other area where they have helped us a lot is we've developed jointly this computer-automated export declaration program, and it's become very popular. It's really taken off in the last four to five years. We started originally with this in 1998, but it's really since the implementation of the administrative monetary penalties that it's taken off, and we're in the neighbourhood of about 52,000 registered users of that right now.

With that, I will pass it over to my colleague to talk about the balance of payments basis.

•(1115)

Mr. Art Ridgeway (Director, Balance of Payments Branch, Statistics Canada): Thank you, and good morning. I'll just take a few minutes to briefly run over the balance of payments program.

The balance of payments program covers the full range of transactions between Canadian residents and residents of the rest of the world. That covers basically everything. Important elements of these transactions are the international trade in goods, which my colleague has just described, but also international trade in services; income flows; cross-border investments; and transactions and financial instruments, including equity and both long-term and short-term debt, which are covered in the balance of payments.

The financial transactions are further grouped into three principal areas, one being foreign direct investment, the second being portfolio investment, and the last one being what we would term "other investment", which is dominated basically by banking deposits and loans and is basically a reflection of the financial sector.

This data is published on a quarterly basis. As it happens, my fourth quarter estimates for 2006 were released this morning at 8:30, so I've provided copies to the members through the clerk.

That's generally what we do, so I'll just say a few words about our data sources, because ours are somewhat different from those of my colleague.

As you've heard previously, for the merchandise goods, we use a lot of administrative data from other ministries or departments. That's particularly true for merchandise trade. We also use the administrative data, in some part, for travel expenditures and for transportation expenditures. For the vast majority of the rest of the balance of payments, we depend on survey data. This is the major difference on the source of these data from the merchandise exports, which are mostly administrative data.

Primarily, trade in services comes from surveys, and we focus there on commercial or business services. These are services between one business or for businesses in the other country.

In terms of financial transactions, we cover the full range of financial transactions, with a particular emphasis on those by Canadian businesses. On the financial transactions, I should maybe just note that most of the interbank transactions are collected for us by the Bank of Canada, through a cooperative agreement with them, so as to reduce the number of points of data collection.

Let's turn for a moment to talking about some of the challenges we face on these BOP surveys that we use for the survey-related data. One of the first challenges we have is simply the lack of independent indicators on which businesses or households in the country are undertaking cross-border transactions. Whereas for merchandise trade we have an administrative source that tells us who's actually trading internationally, there's no equivalent source for services. I don't have any independent indicator that tells me who's actually trading services, who's buying and selling, or who's transacting large financial transactions either.

Another major concern for us is that business accounting does not necessarily separate out transactions with non-residents from transactions between Canadians. Therefore, what that implies is that if we start asking businesses and households to split their transactions between those with residents and those without other Canadians, this imposes a certain burden, because their records may not have them readily available in that form. That's a major concern

we have, because we don't want to inflict more than a necessary burden on the respondents to respond.

It often takes considerable effort by our respondents to be able to split the data into the categories we are asking for. This is particularly true for service inputs. For outputs, they tend to have a better idea of where they're selling their goods, but when they're buying service inputs internationally, they tend to get mixed up with their domestic inputs a lot in their accounting records.

What are other quality initiatives that we've undertaken over the years to try to address some of these issues? First of all, we have an annual Canada-U.S. reconciliation program. This has been going on for over thirty years now, with the cooperation of the United States government's Bureau of Economic Analysis, which is responsible for the balance of payments in the U.S. We reconcile the flows between Canada and the U.S., our largest trading partner, once a year, and we learn from those experiences and we actually now trade data. We use each other's reflection.

● (1120)

I might just pause for a moment and note that Craig mentioned that for the goods trade, the imports are always trusted more than the exports.

For services, it's the exact opposite. Generally, when we ask people on a survey, they have a pretty good idea of where they're selling their services and who their market is because that's important information for the business to understand. But it's less important some of the time to know exactly where your inputs are coming from, so the records often aren't quite so detailed, or they're less willing, or it's less readily available on that side.

In general, we trust the statistics on the export side more than the import side. A key example might be software. Over the years we've found that the data really is different between ourselves and the U.S. So right now we use the export data from the U.S. to improve our import data because it's much more accurate. And it works the other way around. They take our export data on software from Canada to the U.S. as a better measure of imports into the U.S. in that sense.

Other things have been going on. Countries around the world have very similar problems to the ones we have on the survey-based international data. So there have been some efforts to try to regulate this at the international level. One of the first of these initiatives was what is called the coordinated portfolio investment survey, which is now an annual survey that's organized by the IMF. Approximately 70 countries around the world conduct an annual survey simultaneously, and then we share the data.

We focus on what we can measure better ourselves and then try to use the data from the other countries to improve our data, particularly data outside of our own borders, which they can measure better than we can, and then we look at their data and try to improve the estimates for Canada that way. That's already under way.

A similar survey for foreign direct investment is in development right now, with the IMF in the lead again, and we'll be participating in that as it hopefully moves on in the next couple of years.

Finally, we're currently redesigning the trade in services survey that we use. This is the survey focusing mostly on commercial or business services, an area of growing interest. We have a program over the next couple of years to try to redefine the sample process we use for that and to redesign the questionnaires. We'll be doing that in conjunction with our respondents and our clients, such as DFAIT, and others over the next year or two.

With that, I'll turn it back to you for questions.

The Chair: Thank you very much for your presentations, gentlemen. We appreciate the rest of you being here to answer questions as well.

Just before we go to that, we have agreed to deal with the subcommittee on agenda report at the end of this meeting. How much time do we need for that?

There was general agreement on most parts of the report, so that should be supported very quickly, I think. There was one issue on which we needed more discussion.

Would we need a half hour, as agreed, or should we go for maybe 20 minutes?

Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.): Let's go for half an hour.

The Chair: You want to leave the full half hour?

Okay. We will end this meeting, then, at 12:30 to go to that meeting.

We'll start the questioning with Mr. Bains, for seven minutes.

Hon. Navdeep Bains (Mississauga—Brampton South, Lib.): Thank you very much, Chair.

I appreciate the presentation, and I did have quite a few questions. I'm glad you took us through this presentation because some of the questions I had were answered, but there are still some outstanding issues.

In your balance of payments you identify some basic challenges with the way we track trade historically. But we've known and we've seen through various presentations over the past few weeks when we

were looking at trade policy that trade has evolved substantially over the past few years in terms of becoming more integrated with global supply chains, and this concept of integrated trade that is being pushed forth by the Conference Board of Canada.... So these are various elements now that are coming, and there's a vocabulary that's developing to redefine how trade will be conducted on a going-forward basis.

When Canada makes decisions as a country, data is absolutely critical. Without that, we can't make any decisions, especially when we get into trade agreements, as we discussed, possibly with EFTA, and Korea, and so forth, and especially when we work at the WTO level.

After listening to this presentation, I'm a bit concerned, because when we talk about methodology and trade, Mr. Kuntz, I believe you alluded to a 1926 paper written about it—I wasn't around then—and then in 1988 there was an update on the methodologies.

My question is, do we really need to rethink how we calculate some of the trade metrics that we define in light of these changes, and what changes need to be made? I know you've identified quality concerns and so forth, but I think this goes a little bit above and beyond that because those quality concerns seem to be the traditional trade aspects. Does that make sense? Am I in the right ballpark there?

• (1125)

Mr. Craig Kuntz: To go to the question in terms of whether we should rethink trade data and the way we do it, the administrative data we get from Customs is by far the best data we're going to get.

In the early 1990s, for international merchandise trade, we had a project actually called the alternate data sources project. We looked at surveying importers, surveying exporters, or talking to carriers. The conclusion we derived out of that was that we would never get the detail that we have in terms of the province of origin or even the commodity level detail. It just wouldn't be feasible.

With the Customs data, we have this rich data set. It has its problems, but it's better than anything we could ever collect in terms of detail and information. So that gets at the first part of your question.

On the other part, in terms of maybe improving it, we've been working and negotiating quite a bit with our American colleagues. One of the things we'd like to try to get access to is what is called U. S. in-transit documentation. We've been trying for a number of years, and we've succeeded for very small windows. That's what enables us to talk about under-coverage and put some parameters on the size of it. We can then match that transport documentation with export declarations.

We're doing that now in a marine mode. For the ports of Halifax, Montreal, and Vancouver, we're trying to match the shipping manifests, if you will, with the export declarations, to try to get some sense of what implication or what result comes out of these measures that our colleagues at CBSA have implemented, in terms of improving the quality of the data and reducing the under-coverage.

Hon. Navdeep Bains: In terms of some of the issues in that respect, my understanding is that you're saying this is the best data we're going to get. In light of the limited resources you have, these are the best sources you have to deal with.

My question is more specific in terms of changing how we track trade. As you said, one of the issues that was brought forth was transshipping and the issue that the data might be skewed in British Columbia, for example, or in the Atlantic provinces because they have those portals for transshipping.

How do we get more accuracy in the data to reflect better data in light of some of these challenges?

Mr. Craig Kuntz: We just keep trying to encourage and educate the exporters and really work with them to convince them that this is important.

Hon. Navdeep Bains: But in terms of tools, you alluded to a graph. That's where my concern was. You brought forth that graph and you showed Mexico and Canada, and the gap is actually the exact opposite. For the graph, they should have been identical. Is my understanding more or less correct?

Mr. Craig Kuntz: In theory, it should be identical. This is the same transaction we're talking about.

Hon. Navdeep Bains: In theory, yes, and the exact opposite actually happened. How do we—

Mr. Craig Kuntz: We do reconcile. We've done a number of reconciliations with Mexico, and I think we understand some of the differences that are there. The flip side is that we aren't going to be able to change the monthly trade statistics to reflect those differences on an ongoing basis.

Hon. Navdeep Bains: Then on our data vis-à-vis the other countries, how do we compare to other countries? That's another key component as well. We have a way of tracking our data and making sure it's as accurate as possible by relying on the best sources possible. My question is, are the same levels of scrutiny and quality followed by other countries?

• (1130)

Mr. Craig Kuntz: Generally, there's a—

Hon. Navdeep Bains: I know we have agreements and so forth.

Mr. Craig Kuntz: There are UN guidelines on the compilation of trade statistics, and internationally they are followed pretty much universally. Trade data sources are generally administrative data. The

one exception might be within the European Union. For the intra-European Union trade data, because they've gotten rid of the borders, they're now relying on their value-added tax. From what I understand, though, that data is not of better quality.

Hon. Navdeep Bains: So quality has never been an issue in terms of the guidelines being followed by other countries, in your experience.

What I'm trying to get at is that we scrutinize our data and want to make it as accurate as possible, but we're always being compared to other countries. We have data that's being viewed vis-à-vis other countries. In terms of quality and guidelines, though, my concern or my impression is that other countries might not be as rigid in following their guidelines in terms of how accurate we have been in following our own guidelines vis-à-vis the United Nations agreements and so forth.

Have you experienced any of those concerns? Have they been brought forth at any level?

Mr. Craig Kuntz: I think the concerns I've articulated today really are shared around the world in terms of the quality issues. There are papers that have been written in the United States and there was a book in the 1950s that addressed these issues. They're internationally recognized there. We all struggle with them.

In many respects we've been complimented on the actions we have taken in terms of the international forum. We meet annually through the OECD with our colleagues, and they're very interested in some of the measures we do to try to improve trade statistics.

Hon. Navdeep Bains: In our methodologies that we—

The Chair: Mr. Bains, it must be a very short closing question.

Are you finished?

Hon. Navdeep Bains: Yes, that's fine.

The Chair: Okay, good.

We will now go to Monsieur Cardin for seven minutes.

[*Translation*]

Mr. Serge Cardin (Sherbrooke, BQ): Thank you, Mr. Chairman.

Good morning, gentlemen.

One can see, in the witness categories, that one does not go without the other, in the context of the examination of international trade policy. I think that you are all important players in this field. The department, of course, needs information in order to plan its policies, and it depends considerably on statistics. In order to guarantee the reliability of their statistics, statisticians must also depend on the agency.

In light of the problems you have identified and enumerated, are there what might be termed international statistical conventions to balance things out which would, for instance, make the Mexico-Canada table identical with regard to imports on the one hand, and exports on the other? Are there any international statistical conventions?

[English]

Mr. Craig Kuntz: There is the *International Merchandise Trade Statistics: Compilers Manual*, which we all try to follow, but there are different trade systems as well that can be applied. In Canada, we follow what's called the general trade system, which means that our customs boundary basically agrees with our physical border. In other countries, such as Mexico, they have the maquiladoras, and those are considered to be customs-free zones.

So there are different ways of compiling trade. To reconcile all of that, if you want to deal with one country, you have to do a bilateral reconciliation with that country to try to understand some of the issues that are there, come up with what would be a commonly agreed upon list of issues, and then maybe struggle to come up with a common series too. You have to go into that with a very clear set of objectives of what it is you're trying to accomplish.

[Translation]

Mr. Serge Cardin: For instance, each member-country of the World Trade Organization could at a given point have conditions imposed upon it. But would it be possible to do so? We all understand the importance of statistical data. They can affect the thrust of policies in certain countries, and that can be a good thing, but the reliability of statistics is important.

At the same time, if it were possible, I would ask you firstly if this could be applied within the WTO criteria. Secondly, how can you assess the reliability of the statistics you regularly compile?

•(1135)

[English]

Mr. Art Ridgeway: There are a number of cases where we try to do studies to compare the accuracy across the different agencies. The IMF, particularly through its balance of payments program, looks annually at trying to compare the data across a world level and tries to sum them up. So there's a whole series of processes there, which we try to bring together.

We're rewriting international manuals right now, as we speak, to try to bring the standards internationally closer together so that countries will have measures that are much closer. We're rewriting the international *Balance of Payments Manual*, and other efforts are being made to try to make sure those measures are as close as possible. That is in cooperation with other international operations such as the OECD and World Trade Organization, which are involved in specific aspects, but we are trying to do that at all levels, yes.

[Translation]

Mr. Serge Cardin: I asked you about assessing the reliability of statistics. At the Department of Foreign Affairs and International Trade, in certain files, statistics are often a tool.

How do you evaluate the statistics that are sent to you?

[English]

The Chair: Mr. Burger, go ahead, please.

[Translation]

Mr. Anthony Burger (Chief Economist, Office of the Chief Economist, Department of Foreign Affairs and International Trade): Thank you, Mr. Chairman.

To answer the member's question, I would say that there is no problem with regard to data on physical products. The real problem involves trade in services and investments. If there is a difference between the statistics on imports prepared by Mexico and those on our exports, it is clear that the problem derives from the fact that some of our exports to the United States are destined for Mexico. We can rectify this inaccuracy with data on imports by Mexico.

As Mr. Ridgeway just said, it is quite clear that as regards products that are exported to Mexico, their statistics are more accurate than our statistics on exports. So we have a way of resolving that, and we know that this is a growing market for us. The trends are more important than the current statistics.

[English]

It's more important to know what the trend is than what the precise figure is. We know that our exports to Mexico are increasing and that our exports to Mexico are now not quite at the level of our imports from Mexico, but that gap has narrowed to some extent since NAFTA. So that's a useful piece of information. It helps us respond.

If I can just add a couple of thoughts, one thing that is true about Statistics Canada is that it does two things. It produces statistics that are mandated by law, and it also undertakes surveys and other work in cooperation with policy departments. There are a couple of projects that we are asking Statistics Canada to help us with at present. One is to map exporters to importers. In other words, as we see the new economy coming into place, and this responds to one of Mr. Bains' concerns, what is different? One of the things that's different is that the importer and exporter may be the same person. It's very important to know if a company is importing components and exporting, because then we can say it's almost more important for us to have a lower tariff on the import than to worry about somebody else's tariffs, because that business could move somewhere else if the company finds that we have high tariffs on parts.

A project that we're asking Statistics Canada to help us with is to see what exporters actually rely on imports in order to make their products competitive internationally, and how our trade policy can adjust to that. So Stats Canada does things like that.

Another thing we are asking Stats Canada to help us with is relating the impact of our trade commissioners abroad on the volume of trade with particular countries. Are there specific cases in which a company comes to the trade commissioner in a particular city and says, "How do I export to this market?", and then follows up by increasing his or her exports to that market? So Stats Canada helps us to a great extent at a very micro level on these kinds of things, but they ask us to pay.

• (1140)

The Chair: Merci, Monsieur Cardin.

Mr. Menzies for seven minutes.

Mr. Ted Menzies (Macleod, CPC): I will defer to Mr. Allison.

The Chair: Mr. Allison.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you, Mr. Chair. Thank you, gentlemen, for being here today.

My questions are going to revolve a little bit around foreign direct investment and how those things are tracked. As someone who's involved with SMEs and doesn't have a whole lot of options in being able to worry about different tax jurisdictions—I mean, I pretty much have to pay my taxes here in Canada and I don't have much opportunity to invest in foreign countries.

My concern is this. When we look at tax haven investments, I think one of the things that always got my goat was CSL, and the fact that this was a Canadian company owned by a Canadian prime minister who was flying a flag of convenience for tax purposes, for how we deal with labour laws and getting around some of those things. How do we determine what are tax avoidance methods versus more tangible investments in companies? Obviously there are people investing in other countries for different issues, but there's certainly a huge issue when it comes to Canada, with people parking their corporations offshore just to avoid taxes. Do you have any comments on that?

Mr. Art Ridgeway: Not really.

Some hon. members: Oh, oh!

Mr. Art Ridgeway: We measure where the investments go, but we have no other information on the whys or whenever they're doing that. No, I can't comment on that.

Mr. Dean Allison: Is there any way...? This is certainly part of the whole equation, this money coming in and going out of the country. Is it possible to change the way we look at some of those things? Do you have any thoughts on the system we have now versus what it could be?

Mr. Art Ridgeway: Not particularly.

We try to show foreign direct investment and other portfolio investment flows by country whenever we can. We can try to give information to identify where those flows are, and others then may use that to do research. We try to give the most detailed information we possibly can to help with whatever research activities that may be out there.

Maybe I can report that the Canada Revenue Agency occasionally asks us for a special tabulation on how much investment is going to a list of countries that they specify as being potential havens...or

something to that effect. I don't know what word they use. We do that for them. It's simply a special tabulation that provides them with some more information, but it tells them where investments are going in recent periods.

Mr. Dean Allison: How exactly do you measure that?

Mr. Art Ridgeway: We survey the firms and ask them where they're investing, where they own other companies, and where they own other financial assets—stocks, bonds, or whatever. If they own more than 10% of an entity outside Canada, then that's part of foreign direct investment. The criteria is 10%, but over 85% of foreign direct investment is in firms where there's a majority ownership situation. The Canadian or foreign firm coming in owns more than 50% of the voting power in the firm.

When you're looking at foreign direct investment data, you're mostly talking about ownership and control of a firm in another country. By dividing that out, you can see where there may be Canadian companies investing in an ownership and control sense in certain other countries, as opposed to just buying some stocks and bonds to invest in your retirement savings plan, or whatever. This helps to identify where that kind of ownership investment is happening.

Mr. Dean Allison: What I'm assuming is that on the inbound and the outbound, it is strictly voluntary. Is that correct? On the outbound it is.

Mr. Art Ridgeway: The survey is obligatory. Under the law they must, or are supposed to, respond to the survey. What we really ask for is only the first point outside the country where you invested.

Occasionally we try to look through those financial centres—whether on an island in the Caribbean, in Luxembourg, or Holland—to get information about the destination of the final investment. But we don't always get that additional information; we try to perceive it.

That's an international issue, and right now we're trying internationally to find new methods. Many other countries would like to be able to see from the ultimate investor all the way through to the final destination of investment.

I'm working on a committee at the OECD that's trying to investigate how we might find measures to do that.

• (1145)

Mr. Dean Allison: How confident do you feel that the data is given?

Mr. Art Ridgeway: We're quite confident that the general trends and the general level of data going to most countries is reasonably accurate. Certainly if there are some issues about very small companies that are hard to track, as I mentioned, we don't have independent indicators of who is investing overseas.

Because we don't want to overburden smaller companies with a lot of surveys, there may be some issues about which we don't have full coverage, and that's an issue. This is part of the trade-off in trying not to overburden people, but to come up with accurate measures.

For the very largest companies, where most of the value is, we are quite confident that we have good coverage.

Mr. Dean Allison: Good. Okay.

How much time do I have, Mr. Chairman?

The Chair: You have two minutes.

Mr. Dean Allison: In terms of investments coming in, I know the government set up FINTRAC, which obviously tracks large investments as well, trying to figure out what may be laundered. It would not necessarily be the case. There are mechanisms that the government is trying to put in place to try to monitor some of these things and figure them out.

Mr. Art Ridgeway: I am not party to that, or we're not involved in that particular program, but I know of it.

The Chair: Do you have one question?

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

I come from British Columbia. I'm reading through the report and hearing what you're saying about transshipments. For the importing province, in this case British Columbia, the numbers would be skewed, because we've put approximately \$600 million into our gateway, and we're expanding. That's not necessarily the origin, the destination; it could be shipped throughout the province.

So how significant a problem is the transshipping, in terms of collecting that export data? How can this problem be overcome?

Mr. Craig Kuntz: You're talking merchandise trade?

Mr. Ron Cannan: Yes, export and import.

Mr. Craig Kuntz: As you aptly alluded to, in the province of clearance, where the goods are landed.... After that, we don't track where they go in the country.

There's a project in the national accounts where they try to measure interprovincial trade flows, but it's detached from that administrative data source.

In terms of improving the transshipment data, we're working with our colleagues at CBSA. We've put in some measures. They have penalties to try to really get at the issues of reporting, the whole under-coverage issue.

For the other part, we keep negotiating with our colleagues in the United States to get access to those in-transit documents from U.S. Customs and Border Protection. If we could get those, they would help us a lot.

As I mentioned earlier, we had access to them only twice. We had a one-week period in 2003 and found that there was about 90%

under-coverage. We had a longer period in 1993-94, when we were looking at about a 65% under-coverage rate. So there is quite a bit of trade that's going sort of in-transit out of the country, which, based on our measures, we aren't accounting for.

What we do to sort of account for this is in the balance-of-payments-based series. We put in what we call an export under-coverage adjustment, which currently represents between 3% to 4% of total trade.

We're expecting that when we finish the latest study we've been doing on the marine ports, this number will come down. We don't know by how much, but we will react and adjust that export under-coverage adjustment.

So we are trying to add in at the aggregate level an accounting of what we believe is missing, in terms of exports on the balance-of-payments-based series.

The Chair: Thank you, Mr. Cannan.

Mr. Marston, you have seven minutes.

Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP): Thank you, Chair.

I don't do this often, and I guarantee it, but I'm actually agreeing with the members opposite.

Some hon. members: Oh, oh!

Mr. Wayne Marston: These flags of convenience are offensive to the Canadian people and to me, but I think I'll leave that alone.

It's very tempting to watch people sweat when we put them in a political hot seat, but we'll avoid that somewhat.

Mr. Kuntz, our party is particularly concerned if Canada has put all of its eggs in one basket—the American basket, of course. We believe we've seen this with softwood lumber, the mad cow crisis, and oil and gas exports. Now we have the security and prosperity partnership of North America that's being negotiated. Again, we're concerned that there's kind of a gravitational pull putting a lot of pressure on Canadian sovereignty by reducing our ability to frame and control our policies.

Another concern, in our opinion anyway, is that it seems to reduce the east-west trade linkages in our country.

I come out of the labour movement, and one of the things we've noticed since the free trade agreements were implemented is that wages in Canada have stagnated. We've had about four decades of declining inequality in our country, but now the inequality regarding after-tax family income seems to be widening again.

Do you think this export concentration dependence on the U.S. market is healthy or safe? If not, what could Canada do to reverse this trend and diversify our exports? What role could government policy play?

I said I wasn't going to be political, but I guess that's reasonably political.

• (1150)

Mr. Anthony Burger: It is with peril that you volunteer.

Some hon. members: Oh, oh!

Mr. Anthony Burger: I would note that in the past few years, a couple of phenomena have occurred indicating that the situation is a bit more complex than we had expected, certainly than I had expected.

For example, with the opening of diamond mines in the Northwest Territories and the concentration of the diamond business in Europe, we're seeing a significant increase in exports of mineral products to both Belgium and the United Kingdom, which is having an impact on the share of our exports going to the United States.

Another reason why our share of exports to the United States has fallen in the past couple of years, which may not be as attractive to everybody, is the decline in the automotive trade. You have those two phenomena.

Another thing that is happening is that global resource prices have risen, and while you might think that would lead to an increase in the share of exports going to the United States, because of a rise in the value of petroleum exports, that's offset to some extent by two-way trade.

We are seeing exports of commodities on a global basis, whether it's metallurgical coal to Asia or other products to third markets, rising as a share of total trade.

Maybe Mr. Kuntz has the exact figure, but I think the share of our exports going to the United States has fallen over the past couple of years.

Mr. Wayne Marston: Thank you.

Again to you, have you studied the relationship between trade and employment in Canada? I'd be particularly interested in the relationship between the volume of trade and employment. When we hear about trade, we almost always refer to it in dollar figures and not volume.

Have you done studies on this relationship? If yes, why, and if not, is it perhaps because of lack of resources?

Mr. Craig Kuntz: Let me deal with the volume question first.

One of the reasons we do price indices is so we can convert the monetary trade flows from a current dollar to a constant dollar basis, where we're then trying to get at what would be a proxy for volume in terms of a constant dollar series.

That's part of how we address this.

Mr. Art Ridgeway: On the research questions, I can't identify a particular paper. I think there have been some papers produced at

Stats Canada on looking at the effects of trade on productivity and growth in different industries by our productivity people.

We could try to find those and circulate them to members, if necessary.

I don't know if Dan is aware of any immediate ones, but I think there have been some studies done in that area that could be enlightening to some members.

Mr. Dan Ciuriak: John Baldwin at Statistics Canada has been very active in estimating the impact of trade on the economy, and on productivity in particular, but also in terms of the performance.

A firm that becomes an exporter, in John Baldwin's finding, becomes substantially better in all aspects of firm performance, including productivity, research and development, higher wages, and so forth. There are very complex interactions between a firm entering an export market, being subjected to international competition, gaining access to international technology and knowledge, and then improving its own performance at home. Of course, this impacts on its ability to generate exports, domestic sales, and domestic employment.

There are some studies of that nature.

• (1155)

The Chair: You have about a minute left, Mr. Marston.

Mr. Wayne Marston: Then I'll ask Mr. Burger a direct question.

Do you believe that any new trade deals we pursue should take into account the important questions of quality of life for citizens, effectively incorporating principles of labour standards and environmental concerns? Also what would your version of fair trade be?

Mr. Anthony Burger: If I had been asked to make some remarks, I would have said at the beginning, Mr. Chairman, that we're responsible for the analysis of trends and we hand issues of this nature over to policy-makers.

So with respect to the member, I would say that the question of the impact in a welfare sense is something that we look at, but we hand decisions over to other people, with respect to the way to respond to those phenomena.

The Chair: Thank you, Mr. Marston.

We will now go to the five-minute round.

Go ahead.

Mr. John Maloney (Welland, Lib.): You referenced the Canada-U.S. reconciliation. Do you do reconciliations with other countries as well?

Mr. Art Ridgeway: No, we don't. It's a fairly resource-intensive activity, so we haven't done that.

We have had some musings about possibly doing it with Europe, particularly now that the EU is sort of one unit. We could do it with the EU as a total, rather than with each separate country. We have had minor discussions at that level, but we haven't explored that very much at the moment.

Mr. John Maloney: Is it a resource problem, or you just don't have the money?

Mr. Art Ridgeway: It's largely a resource problem. It is a fairly labour-intensive activity. As you've heard, not all countries use exactly the same methodologies.

Once a year, we take our Canadian data and massage it as best we can to be equal in concept to the U.S. data, and then we compare the values.

Given that this is more value to Canada, because their trade with us is a much bigger share of our trade than the other way around, we end up doing most of the work, which is fair because we get more of the benefit.

It is a resource issue at this point to try to do more.

Mr. John Maloney: Would it be advantageous to Canadian businesses to have that information with the EU or with Japan?

Mr. Art Ridgeway: To the extent we could improve the data, I guess it would be advantageous to both businesses and policy-makers.

Mr. John Maloney: How current is your data? Do you have the data for 2006 now? When will you have that?

Mr. Art Ridgeway: We have the preliminary data, released this morning, for all aspects of the balance of payments, which was handed out for up to the end of 2006. We do it on a quarterly basis, thus it's fairly aggregate data.

Later on, for certain aspects, such as trade in services and foreign direct investment, we are able to produce more detail. We keep the estimates fairly aggregate at this point on the preliminary data because we don't have a full suite of surveys back, but later on we add detail.

We are fairly timely, with about 60 days for the balance of payments.

Mr. John Maloney: Is there a minimum amount below which you would not record?

Mr. Art Ridgeway: In principle, there's no minimum amount. I suppose in a practical sense it's difficult to find the very small transactions.

For instance, for imports arriving through the post or courier systems, very low values are estimated at sort of an aggregated group level from the postal system, the courier system, through the exports, and so on. We have general numbers that aren't identified individually, but we have estimates that are included in the data.

• (1200)

Mr. John Maloney: Thank you.

The Chair: Thank you, Mr. Maloney.

Go ahead, Mr. Temelkovski. You have about two and a half minutes.

Mr. Lui Temelkovski: Thank you.

We measure the overall analysis of the trends and figures. I know the government uses them a lot. Private companies use some of the statistics and also not-for-profit groups. Are there fees for this data? Do private companies have to pay fees?

Mr. Craig Kuntz: It depends. In terms of merchandise trade, we have a cost-recovery program, but we also try to make a vast amount of data available for free.

For instance, all of what we call the HS6, which is the harmonized commodity code data, is available for free on the Industry Canada's Strategis website. We provide that.

Also, all of our publications are free.

When we get to specialized services, things that go beyond what we would normally do or what's available for free, we charge—for example, if people call up and want a tabulation done a particular way to suit their needs, rather than going to the website and getting what's available, or if they want to go down to a very detailed level. For instance, if they come to us and say they want to know about a ten-digit import by mode of transport for particular ports, we would certainly charge them to get at that data, because we would have to have somebody sit down and physically do that special tabulation for them.

If they were going at imports for that six-digit, higher-level family for a province of clearance, they could get it for free.

Mr. Lui Temelkovski: How about for non-profit organizations? I've had one call in the last three years.

Mr. Art Ridgeway: I don't think there's any particular treatment for non-profits that I'm aware of. There is a special program where we provide additional information to universities and through the school systems for research that's available for free, but I'm not aware of a program particularly aimed at other non-profit institutions.

Mr. Lui Temelkovski: In terms of exchange rates and economies, I understand that exchange rates play a large part in figuring out what the trade surplus and imbalances are.

Mr. Art Ridgeway: We measure and publish everything in Canadian dollars. Often the transactions are in some other currency, or particularly for foreign direct investment, our assets abroad are often measured in other currencies.

So we translate those into Canadian dollars using current exchange rates. If it's a flow, it's the average for the period. If it's a balance sheet item, we would use the end-of-period exchange rate. For each reporting period, it's always brought back into Canadian dollars to try to make it comparable over time.

Mr. Lui Temelkovski: Do we keep any data in terms of how foreign economies are performing?

Mr. Art Ridgeway: There's some limited data on other countries on the Stats Canada website. But with the Internet now, you can access data on many other websites around the world. IMF and the OECD have data available on various websites on a wide range of countries or member countries. So this can be accessed fairly readily through the Internet, with tabulations and so on.

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

I want to ask a follow-up question to Mr. Maloney's question, as to how current the statistics are.

You say this is fourth quarter 2006, which somewhat contradicts what we were told at an earlier committee meeting. One of the witnesses said that in fact they've only just received the information about services from a specific country for 2003. So there was quite a lag time in terms of getting the information for the particular country that was being talked about. Can you talk about that a bit?

Mr. Art Ridgeway: Yes. The more detail we get, the longer the lags are, particularly for services and somewhat for foreign direct investment as well. The detailed estimates depend on the annual surveys we conduct. We mail those out after the reference year, and then it often takes up to 18 months to prepare the data, which is a fairly long lag.

One of the reasons for doing this is that we try to utilize as much data as possible from a wide variety of sources to minimize the response burden. Therefore, we have to wait until other data sources become available, so we can use them to put this together.

As I mentioned, some of the accounting information is not readily available, and we find that companies often respond more slowly to our surveys than they do to some of the other surveys, simply because it's more work for them to dig the data out of their system.

So we try to accommodate that by being flexible on how long we give them to respond to the survey. But the detail is slower, yes.

• (1205)

The Chair: Thank you very much.

We'll go now to Monsieur André for five minutes.

[*Translation*]

Mr. Guy André (Berthier—Maskinongé, BQ): Good morning. This is very interesting. I have a few questions for you.

We, the members of the committee, examine all sorts of possibilities regarding bilateral agreements with different countries. With all of the statistical data that you have, are you in a position to assess the advantages and disadvantages, economically speaking, of possible bilateral agreements? Is there currently a bilateral agreement with other countries which we should make a priority for the future? There are different agreement possibilities.

I was examining the statistics on direct investment abroad. Do you have statistics for Canada on direct Canadian investment which would affect the provinces, more specifically? Moreover, still on the topic of direct investments abroad, we see that the finance and insurance sectors dominate in all of the industries.

I would like to hear your comments in this regard. This is a perspective which is gaining ground increasingly, with regard to these services. The increase in direct foreign investment is on the upswing. What consequence could this have on employment?

[*English*]

The Chair: Go ahead, Mr. Ridgeway.

Mr. Art Ridgeway: There are a variety. A couple of them, I think, may be more from my policy colleagues to comment on.

The Chair: Please do divide them up the way you see fit.

Mr. Art Ridgeway: I'll start with the insurance. It certainly has been one of the stronger ones. We've had some strong Canadian investment overseas in recent years, so it's one of the stronger-moving series. I think we have some fairly strong companies in that area of foreign direct investment in both directions. In general, the financial sector happens to be one of the most active in foreign direct investment in and out of Canada, but particularly on the outward side. It's an important area that we've seen growing.

Before I turn it to some of my colleagues, we don't have any data on provincial aspects of FDI. I could explain that quickly. Foreign direct investment is really ultimately a balance sheet measure; the basis is from the balance sheet. At the legal entity, balance sheets tend to be at the corporate level. The problem is that we can have an enterprise that has establishments in many different provinces, but they only have one balance sheet in Canada, so there is no real systematic way to decide whether this foreign direct is going to one province or another. It would be very arbitrary, and that causes all kinds of problems.

We're looking at possibilities of coming up with other measures, though: globalization measures that may be able to address some of those issues by identifying whether certain investments are being made by foreign-controlling companies, Canadian-controlling multi-nationals, or Canadian companies that just operate in Canada. This is a new program we're looking at. It may help answer the same questions as I think you're trying to look at with the question on provincial data.

As to the employment and the bilaterals, possibly I could let my colleagues from DFAIT attempt those ones.

The Chair: Mr. Burger, go ahead, please.

[Translation]

Mr. Anthony Burger: Thank you, Mr. Chairman.

I think that the problem relates to the state of advancement of the science of modelling rather than to the data as such.

• (1210)

[English]

We have a way of looking at statistics in order to assess the impact of the change. The way we do it is to say that if the tariff on a product being sold in a market is moved from its current level down to zero, let's assume that the price in the country falls by the same amount; what will the effect be on the quantity of the product shipped from Canada?

There are two key questions in that analysis. One is whether the price is going to fall by as much as the tariff has fallen; the other is whether the elasticity—that's the nature of the response of the consumer in that country—is accurately specified in the model. Then when you aggregate all these things across a wide range of products, are you sure the supply impact in Canada is going to be accurate?

My colleague Dan Ciuriak may get into a bit more detail in a couple of seconds, but if you were, for example, to imagine that a country were to lower its tariff on Canadian pork, would the Canadian market be able to produce as much pork as that country would buy? Would we be taking product market share away from another country also selling in that market? Would we be taking market share away from domestic producers? The real problem in modelling is not whether we have 20% of the share of the market now or 17%; it is what's going to happen when the price of the Canadian product falls. Have we got our estimate of what the new price is going to be accurately in our model? We do the modelling, but we don't make our decisions on whether to negotiate a trade agreement exclusively on the basis of the model's predictions, because we know there are limitations in that.

The Chair: Mr. André, your time is up, but Mr. Ciuriak, could you give your response? I think you're getting to the nuts and bolts of why we had you here today.

Mr. Dan Ciuriak: Thank you, Mr. Chairman.

To add to what Tony said, once you've got the estimate of the trade flow, there's the question of the estimate of the trade barrier with goods. It's typically a tariff, but it can also be a non-tariff barrier. For goods, we typically have fairly good tariff-equivalent measures of the barrier, but when we get into services and investment, then we have very poor-quality information on the barriers to services trade or to investment flows, so you need both the measure of the trade flow and the measure of the barrier.

Further, you need to know to what extent the trade negotiation will lower that barrier. Again, with tariffs it's clear, but with non-tariff measures, if you change an administrative measure that affects imports, for example, into a country with which we're negotiating, we then have to be able to translate that change in the administrative measure into a price—a tax—and that involves a fair amount of

judgment, so there are limitations to our ability to give precise answers to the question of what services trade liberalization and also investment trade liberalization would imply.

With investment, and with services as well, there's a further complication in that you can do international commerce either across the border, which is what trade models measure, or you can do it by establishing a commercial presence in the foreign country. Insofar as in the presence of tariff barriers a country, Canada, may have invested abroad in order to produce in that market for that market, when you lower the tariff, perhaps the Canadian company might choose to export directly, so investment might fall and trade might increase, or vice versa. Because of the substitutability of trade foreign investment, they become complex issues for modelling how companies would actually react when both trade and investment barriers are being lowered. That is, again, a further level of complication.

The fourth level of complication involves translating trade games into what policy-makers really want to know: what the impact will be on Canadian GDP, on Canadian jobs, on Canadian welfare—the economic benefits. There we need to track the trade flows back into the economy. This is done through input-output tables, which track the impact on demand when a Canadian company exports. If we export a car, what's the impact on demand for steel, on jobs, etc.? There again we get into a considerably higher level of complication. As you can see, we have more confidence in estimating trade flows directly, but then we get into a lot more assumptions in terms of trying to estimate the ultimate benefit to the Canadian economy in terms of jobs and GDP.

That is one of the main functions of my division. We do our best. We believe we can provide estimates, a range of estimates; we would consider these not as a final answer on what the impact of a trade agreement might be, but rather as an invitation to discussion and debate to inform further policy considerations.

• (1215)

The Chair: Thank you, Mr. Ciuriak.

Mr. Menzies is next.

Mr. Ted Menzies: Thank you, Mr. Chair.

Thank you, gentlemen. This has been very informative. I think we've all wondered about it as we filled out StatsCan forms that were this deep sometimes, it seems. On my farm I always used to get the big version, and I'm sure the chair did too. I'm glad to see that it went to good use. We all knew that it did, but it's great to have this reassurance.

I think that's why we wanted to have you here to speak to us on this issue. We all know how much data is collected, or we imagine how much data is collected; how does that actually benefit Canadian industry? That's what this trade committee is all about: to find out what else we can do, what else government can do, to provide a seamless opportunity for Canadian businesses to prosper. That's what creates jobs; that's what grows the economy. We wanted to see how those work.

How do you decide what data are of benefit to Canadian businesses, as opposed to what data are sensitive and can't be released? We've all heard the argument that the Canadian Wheat Board has made for years and years; it is that they have sensitive market information that can't be divulged. Do you have access to that information? We as farmers, in our farmer-owned Canadian Wheat Board, don't have access to it.

That's a quick question, and then I've got one other.

Mr. Craig Kuntz: I can certainly address the one on the Wheat Board. We get average prices from the Wheat Board. We have to amalgamate our different qualities of grain into one class. We face the same—

Mr. Ted Menzies: We don't get that either.

Mr. Craig Kuntz: What we get is an average of the market transactions, but they don't give us the detail on any individual transaction.

Mr. Ted Menzies: Okay. I wanted to ask that question.

Going back to my more serious question, how do you decide what data is needed to benefit Canadian industries?

Mr. Art Ridgeway: I'll give you a general answer.

First of all, we consult fairly widely—as widely as we can—with users, whether they're in business or they are our colleagues in the policy departments. We have a series of advisory committees. We try to go out to speak to businessmen and businesswomen and organizations as much as we can.

It's a continual trade-off with a limited budget...what are the best data and so on and also what are the least burdensome to collect. Certainly we have a whole series of organizations that advise us. We have an advisory committee on international trade. We meet with them twice a year to talk about where those trade-offs might be and how we can try to do those.

We certainly conduct discussions with our policy analysts. We try to keep ahead of the direction they might be thinking of going or where they might have data needs that we're not meeting now. We can't always meet them all. Unfortunately, there are challenges on that, but we certainly try to become aware.

We try to keep in touch with business organizations to the extent that we can as well, to get their points of view on what data is necessary and important for them.

• (1220)

Mr. Ted Menzies: So that's fluid, then. It can vary as trends change or as disposable income in different countries changes.

Mr. Art Ridgeway: Yes. Well, we like to keep a certain level of stability in the system. What's trendy today or maybe not necessary

today may well be the most crucial piece of information you need next year. That's always the tough decision.

A certain industry may be totally healthy this year, but it may have problems next year, and it may be crucial that we know about those things. So we have to look ahead.

Mr. Ted Menzies: One quick question, if I could, and then I'd like to pass it over to Mr. Cannan.

A large percentage of foreign direct investment comes from the diaspora in this country—families sending money back home. How do we gauge that? Is that classified as foreign direct investment?

Mr. Art Ridgeway: No, that's not foreign direct investment, but it's an important flow. It's probably one we don't measure as well as we could.

I think this was recognized at the G-7 summit three years ago, that there are measurement difficulties for all the big countries now that immigration is a much more important factor and families are sending money back to their families.

There is an international effort to try to improve that data. There are major changes coming in the BOP manual, which I spoke of earlier, and there's a working group that is trying to come up with new methods so we can improve our estimates.

I had one project in the last year that raised our estimates a little and improved the quality. I still think we have some way to go on that. I think it's a very important issue.

Mr. Ted Menzies: Okay. Thank you.

Mr. Cannan.

The Chair: Yes, Mr. Cannan, one question.

Mr. Ron Cannan: I have two. I'll have to ask just the one.

The Chair: Go ahead and ask the two. We'll negotiate.

Mr. Ron Cannan: Okay. I'll be really quick.

During your opening comments, there was a reference to NAFTA being good for import-export trade—both ways—in respect of increased growth in our level of trade.

This trade committee is looking at ways we can develop a report next month to enhance our trade opportunities.

From your day-to-day experience on the ground with the security and prosperity partnership, what kinds of initiatives can we put in place to help increase and provide more efficient movement of goods and services across the border?

Mr. Raymond Bédard (Director, Partnerships Division, Admissibility Branch, Canada Border Services Agency): Well, the key one would be the eManifest project, which you may be aware of. The CBSA is responsible for numerous deliverables. I won't bore anybody with them right now, but certainly eManifest is the big one.

To make a long story short, eManifest is pushing the borders out. Rather than looking at things at the border and assessing duties and taxes there—applying business management techniques—we're going to look at things when they're boarded on ships in Europe and Africa and Asia. So we're pushing the borders out.

What it also means is we're going to be able to track goods coming into the country, from entrance to in transit. It really is the answer to many of the issues that Stats Canada has with transshipment and those types of things.

But this is not tomorrow; we're talking five or six years. It's a huge project. We just received \$400 million to put it together. A lot of people are working on it. At least for CBSA, eManifest is the number one project that will help streamline things and move things a little faster at the border while maintaining a high level of security.

Mr. Ron Cannan: That's very encouraging.

I have one supplemental. With regard to the issue of foreign trade and our policy that we've been discussing, the member from the NDP spoke about the income gap between the rich and poor as growing.

Mr. Burger, could you maybe expand, from an economist's perspective, on any correlation between that assumption and where our trade policies are?

Mr. Anthony Burger: Thank you, Mr. Chair.

There are two issues. One is the share of income going to the poor—let's say to the bottom 20% of the population—falling or rising, and the other is what's the distribution of the rest of the income. There is clear evidence that in this period of globalization, income distribution is changing, but to get beyond that, as to who the beneficiaries are and who the losers are, is quite a complicated story, and linking that to changes in trade volumes and trade flows is also very complicated.

There is evidence that the top-most percentiles have increased their share of income. There is also evidence that the poorest have not necessarily been the ones to suffer. We are certainly looking at this to see if there is a link between these statistics and specific trade measures. This is a global phenomenon, and that suggests to me there is not much that can be done in terms of trade liberalization or limited trade liberalization that will impact on that. This is more an issue for social policy within a country.

• (1225)

The Chair: Thank you, Mr. Cannan. Two or three supplementals for one question was enough.

Mr. Marston for five minutes.

Mr. Wayne Marston: Mr. Burger, I was pleased to hear that you were going to be here, with the breadth of your experience.

We are concerned about Kyoto. We know there are expectations on Canada around reduced domestic greenhouse gases and buying of carbon credits, and of course the export of green technologies and green investments to other countries. Mr. Myers of Canadian Manufacturers & Exporters stated recently that buying carbon credits to meet Kyoto standards could cost \$25 billion between 2008 and 2012, and that \$25 billion, he said, is going offshore and is not going to reduce our own greenhouse gas emissions. He called it a poor use of the money.

I just wonder what your view is on the role of carbon credit buying to keep our Kyoto obligations, to what extent the export of green technology as an investment could help reduce the requirement to buy those credits, and whether there is a win-win situation for us anywhere in this.

The Chair: Mr. Marston, I don't think that question is one that can be answered by any of these gentlemen. Could you maybe go to another question?

Gentlemen, do any of you want to respond to that? It seems like a policy question to me.

Mr. Marston, do you have another question?

Mr. Wayne Marston: We'll move along then. I'm a little surprised, because I saw Mr. Burger's light go on and I thought that meant he had an opinion. It seems interesting that the opinion was short-circuited by the chair.

Anyway, on exports of the Canadian dollar, automotive manufacturers are concerned about the rising Canadian dollar eroding our costs and productivity advantage. What do you estimate is the manufacturing cost advantage at the current exchange rate? Is there an ideal Canadian-U.S. exchange rate for our exports?

Mr. Dan Ciuriak: Is there an ideal exchange rate? The first point is that Canada has a market-determined exchange rate that reflects the demand for the Canadian dollar from a wide variety of sources and the supply of the dollar as well. The bank, of course, focuses on price stability in Canada as its main policy objective and not on a specific level of the exchange rate.

In terms of the very long run, the dollar tends to gravitate towards its purchasing power parity level, but in any medium term—and that can be for a fairly extended period of time—the dollar can vary quite significantly from that particular level. If one were to say in economic terms what the long-run value would be in some sense, it would be the purchasing power parity level. That would tend to equate prices in Canada with prices abroad, and it would be the level at which, in a sense, the law of one price would rule; effectively there would not be competitive advantages for one country over another country in trade.

That is a very long-run concept. In the medium term and in the short term, prices are moving in all industries, and there is no one exchange rate—particularly for a country like Canada, which has both manufacturing and resources—which is “ideal”.

There's a concept of a common currency zone, an optimal common currency zone, in the economic literature. It says if your production were fairly homogenous of a certain kind of product, then the exchange rate could move towards what is optimal for that particular product. When you produce a very wide range of products, as Canada does, no one industry can ever be satisfied that it has the optimal currency. Does that satisfy your question?

• (1230)

Mr. Wayne Marston: Yes.

The Chair: Mr. Burger, go ahead.

Mr. Anthony Burger: I've just had one little fact, which is that in 2005 we produced 2.6 million units of cars and light trucks and the

U.S. produced 11.5 million units. It was 2.6 million in Canada and 11.5 million in the U.S., suggesting that we still have a competitive edge, because otherwise you might imagine it would be 1:10.

The Chair: Okay. Thank you very much.

Thank you, gentlemen, all of you, for coming today. It's been an extremely informative and interesting meeting, and I thank you for that.

We'll take about a three-minute break before we go to the committee's examination of the subcommittee on agenda and procedure report. That meeting will be in camera, so I will ask anyone who doesn't have clearance to be here to please leave.

Thank you very much, gentlemen.

[Proceedings continue in camera]

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