



**HOUSE OF COMMONS
CANADA**

**A STUDY OF THE CANADA-KOREA
FREE TRADE NEGOTIATIONS**

**Report of the Standing Committee on
International Trade**

**Lee Richardson, MP
Chair**

MARCH 2008

39th PARLIAMENT, 2nd SESSION

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has the honour to present its

THIRD REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the Canada-Korea Free Trade Agreement and reports its findings and recommendations.

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A STUDY OF THE CANADA-KOREA FREE TRADE NEGOTIATIONS

I. INTRODUCTION

In November 2007, the House of Commons Standing Committee on International Trade agreed to study Canada's ongoing free trade negotiations with the Republic of Korea (referred to in this report as South Korea, or simply Korea). These negotiations are believed to be entering their final stages and, for this reason, the Committee felt that an examination of the potential impacts of a free trade agreement (FTA) on the Canadian economy would be timely.

The desire to study this subject was motivated by two considerations. The first was concerns over ongoing job losses in the Canadian manufacturing and forestry sectors. While the Canadian labour market on the whole is strong — the unemployment rate in 2007 was the lowest in over 30 years — there are significant pockets of weakness in those specific sectors. Since 2004, employment in manufacturing has declined by 10.8%, while the number of jobs in forestry and logging has trended downward since the expiry of the Softwood Lumber Agreement in 2001. Several Committee members wanted to ensure that Canada did not conclude a free trade agreement with Korea that would exacerbate the challenges already facing those industries.

The second, and related, consideration was to consult with business and labour groups to assess their expectations of free trade with Korea. Committee members wanted to gain a strong understanding of the potential benefits and drawbacks of an agreement, as well as of the specific concerns of Canadian business and labour stakeholders. With this information, the Committee would be in a good position to evaluate the benefits and shortcomings of any trade deal with Korea, should an agreement be finalized.

A more immediate objective of this study, however, was to ensure that the Government of Canada did not sign a trade deal that was not in the best interests of Canadians. Indeed, views on the potential impact of Canada-Korea free trade were mixed. While some witnesses believed that an FTA would be an overall benefit to Canada, others identified a number of specific issues and concerns that, in their view, could be sufficient reason to abandon free trade talks altogether.

This Committee hopes that Canada will not sign an agreement that harms the country; it would be illogical to do so. However, this is not to dismiss the very real concerns expressed by witnesses over issues like market access, non-tariff barriers (NTBs) and the importance of a level playing field vis-à-vis Canada's major competitors in Korea.

It is our view that a well-designed free trade agreement has the capacity to deal with these issues. Indeed, we hope that Canada will not sign any agreement that fails to do so. Given the fact that trade negotiations with Korea could be approaching the endgame, our report is timely; as long as talks are ongoing, the concerns expressed by witnesses can be addressed at the negotiating table. We believe that the recommendations included in this report will help the Government of Canada — and by extension Canadian trade negotiators — to achieve the best deal possible. That is, a deal that ensures that the specific needs of Canadian businesses, from diverse sectors of the economy, are reflected in the final text of the agreement.

This report begins with a brief summary of the status of trade negotiations at the time the report was tabled in the House of Commons, as well as an overview of Canada's economic relationship with South Korea. The following section summarizes the case for free trade with Korea. Section IV examines the concerns expressed by some witnesses about the potential impact of free trade. The report concludes with a series of recommendations to the Government of Canada on steps that must be taken to ensure that any trade deal maximizes the potential benefits to Canada.

II. OVERVIEW OF TRADE NEGOTIATIONS AND THE CANADA-KOREA ECONOMIC RELATIONSHIP

A. Canada-Korea Free Trade Negotiations

The possibility of a comprehensive free trade agreement between Canada and Korea was first raised by Korea in 2004. The two countries discussed the topic in November of that year in Santiago, Chile, during a meeting held on the margins of the Asia Pacific Economic Cooperation Leaders' Meeting. The leaders of the two countries concluded those discussions by announcing that they would explore the feasibility of a free trade agreement.

Official negotiations were formally launched in July 2005. Substantive discussions began in September of that year, and a total of twelve rounds of talks have since been completed, the most recent in November 2007 in Seoul. A thirteenth round of negotiations is slated for Ottawa in March 2008.

Canada's stated objective for these negotiations is, in accordance with the rules of the World Trade Organization (WTO), to remove tariffs for almost all trade in goods between the two countries and also address non-tariff barriers, as well as sanitary and phytosanitary measures that impede current market access opportunities. Canadian negotiators are also in favour of an agreement on services that would improve the market access and treatment that South Korea gives to Canadian service providers; trade facilitation measures that would lessen the regulatory burden on Canadian companies; and a modern investment chapter. Health, public education, social services and culture would

be excluded from the application of the agreement, and environmental and labour cooperation side agreements would be finalized.

B. Background on the Canada-Korea Economic Relationship

South Korea is Canada's seventh most important trading partner in the world. In 2006, the most recent year for which data are available, total merchandise trade between the two countries reached a record \$9.0 billion. Korea is also growing in importance as a trading partner. Two-way trade has grown by an average of 6.4% per year since 2001. By comparison, Canada's global merchandise imports and exports have risen by an average of 2.3% per year over that same period.

Canada has a large trade deficit with South Korea. In 2006, merchandise exports to that country were valued at just under \$3.3 billion, while imports were nearly \$5.8 billion. The resulting trade deficit of \$2.5 billion is significant relative to the total value of goods exchanged between Canada and Korea.

Canada's trade deficit with South Korea was triggered by a specific economic event — the 1998 Asian Crisis. Prior to 1998, trade between the two countries was approximately balanced. However, a combination of speculative investments and non-performing loans in the region caused a crisis of confidence in the financial sector. The result was a flight of capital out of the region and a large-scale devaluation of the exchange rate in many countries. South Korea was one of the hardest hit. The domestic economy plunged into recession and the currency — the won — lost a third of its value relative to the Canadian dollar in 1998.

The fallout from this event had a significant effect on trade between Canada and Korea. A weaker currency made Korean goods much cheaper in the Canadian market, while having the opposite effect on Canadian goods priced in Korean won. At the same time, the recession in Korea dried up demand for foreign imports. As a result, Korean exports to Canada grew by 16% in 1998 while Canadian exports fell by 40% that year.

While import growth continued unabated, it took five years for Canadian exports to recover. During that time, Canada's trade deficit with Korea ballooned. However, the gap has been closing in recent years. From 2003 to 2006, exports to Korea rose by an average of 17.8% per year, aided by the recent boom in commodity prices. For its part, import growth averaged 4.1% over the same period. Canada's \$2.5 billion merchandise trade deficit in 2006 was, in fact, the smallest annual trade deficit with Korea since 1999.

1. Major Export and Import Products

Natural resources represent a large proportion of Canada's exports to South Korea. Coal, wood and wood pulp, minerals (led by nickel, aluminum and copper) and agri-food

products (led by wheat and pork) together made up over 62% of total merchandise exports in 2006. Moreover, this share has been rising in recent years; in 1997, those same products accounted for 44% of Canadian exports.

Canadian imports from Korea are dominated by manufactured goods. Motor vehicles and parts, electronics, and machinery and equipment together account for close to three quarters of total merchandise imports. Of these, motor vehicles and parts represent the largest category of imports, with total value of \$1.65 billion in 2006. They have also been one of the fastest-growing major imports from Korea in recent years. From 1998 to 2004, imports of vehicles and parts grew by 530%, although they have slightly fallen back since.

2. Foreign Direct Investment and Trade in Services

Although Korea is Canada's seventh-largest trading partner in terms of goods, the economic relationship between the two countries is comparatively modest in other areas. Korea is not, at present, a major destination for Canadian direct investment abroad (CDIA), nor is it an important source of foreign direct investment (FDI) into Canada. In 2006, the stock of CDIA in Korea was valued at \$431 million, while the stock of Korean FDI in Canada was worth \$655 million.

Figures on services trade are similarly modest, although unlike trade in goods, Canada has a surplus in services trade. Canadian service exports (also known as "receipts") to Korea were worth \$651 million in 2005, the most recent year for which data are available. Service imports ("payments") from Korea that year totalled \$324 million.

III. BENEFITS TO A FREE TRADE AGREEMENT WITH SOUTH KOREA

Korea has grown to become one of Canada's most important trading partners in the world. Should Canada successfully complete free trade negotiations with Korea, the resulting agreement would be Canada's largest and most significant free trade agreement in almost 15 years.

South Korea represents a dynamic and potentially lucrative market for Canadian businesses. As Ian Burney (Chief Trade Negotiator, Bilateral and Regional, Department of Foreign Affairs and International Trade) stated, Korea has an upwardly mobile population of nearly 50 million people and a trillion-dollar economy. It is one of the most prosperous countries in Asia and is strategically located in close proximity to some of the fastest-growing regions of the world. Moreover, the Committee heard that Korean consumers are sophisticated and have the purchasing power to buy high-quality manufactured goods from Canada.

Witnesses offered the Committee a number of examples of the potential benefits of free trade with Korea and reasons to pursue an agreement. These reasons can be grouped into five specific categories: to improve market access through lower tariffs; to make meaningful progress on non-tariff market access barriers; to use access to the Korean market as a gateway into other regional markets, and to better tap into global supply chains; to open new markets and expand Canada's export base; and finally, as a strategic reaction to the fact that some of Canada's major international competitors have already completed, or are currently negotiating, FTAs with Korea. Each of these is discussed in turn.

A. Improving Market Access Through Lower Tariffs

A trade agreement that substantially lowers or eliminates tariffs on trade between Canada and Korea has the potential to generate considerable opportunities for Canada, simply because Korean tariffs are, on average, higher than Canadian tariffs. Joan Baron (CEO, Vice-Chair, Canadian Chamber of Commerce in Korea, Global Business Development Canada) observed that, in general, Korean tariffs are double Canadian rates and apply to four times as many products. In some cases, Korean tariffs are substantially higher than those levied in Canada.

The Department of Foreign Affairs and International Trade (DFAIT) publishes information comparing the Canadian and Korean tariff schedules for major products and product groupings. According to DFAIT, Korea's overall applied most-favoured nation (MFN) tariff rate is 12.8%, compared to 6.7% in Canada. For industrial goods, the average applied tariff in Korea is 6.3%, compared to 3.9% in Canada. On agricultural products, the difference is even greater: in Korea, the average applied MFN tariff is 52.6% compared to 21% in Canada. Moreover, the Canadian average tariff falls to 5.2% when over-quota tariff on supply-managed products are not included.

Reducing Korean tariffs could produce significant gains for Canadian exporters. Many witnesses including Dan Moynahan (President, Platinum Tool Technologies, Canadian Association of Moldmakers) expressed their confidence that, given a level playing field, they would be able to compete with Korean products. Eliminating import tariffs in both countries would be a significant step in that direction.

According to DFAIT officials, macroeconomic modelling shows that, on the basis of tariff elimination alone, Canadian exports in 2005 could have been nearly 60% higher than was actually the case. A free trade agreement with Korea would have contributed \$1.6 billion to Canada's gross domestic product (GDP) that year.

Not surprisingly, Canadian industries which face the highest tariffs in Korea, are among those expected to benefit the most from a free trade agreement. In particular, agriculture and resource-based industries stand to gain from improved market access. For example, the average tariff facing Canadian fish and seafood producers in Korea is 18%,

compared to the 2% tariff levied on those products in Canada. The Committee heard from several witnesses representing agriculture and resource industries, all of whom were supportive of a Canada-Korea free trade deal.

The forest products sector is another which could benefit considerably from a free trade agreement with Korea. Marta Morgan (Vice President, Trade and Competitiveness, Forest Products Association of Canada) testified that Korea is already a fast-growing market for Canadian forest products, and that a reduction of the 5% to 8% tariffs currently facing Canadian forest products exporters in Korea could only improve Canada's price competitiveness in that market. Given the current weakness in the housing market in the United States (U.S.), it was suggested that a free trade agreement could provide a much-needed boost to the Canadian forest products sector.

Agriculture and resource industries are not the only sectors where tariff reductions are expected to improve market access. Ian Burney noted that:

We also expect gains in a variety of industrial and manufacturing sectors that provide high-value jobs in Canada, including chemicals, aerospace, and urban transportation equipment, fertilizers, auto parts, pharmaceuticals, cosmetics, prefab buildings, environmental goods, and machinery and equipment, to name a few.¹

B. Making Progress on Non-Tariff Barriers and Market Access Restrictions

Discussions surrounding free trade negotiations often focus on tariff reduction, the impact on goods-producing industries and the expected impact on merchandise imports and exports. However, modern trade agreements are about more than just tariff reduction. The Committee heard that a comprehensive agreement also includes provisions on a wide range of areas, including services, investment and labour mobility.

Perhaps the most common issue raised by witnesses over the course of the Committee's hearings was the prevalence of non-tariff barriers in Korea. NTBs in the auto sector received the most attention, but witnesses identified NTBs as an issue in a wide range of industries including forestry, agri-food products and industrial goods.

However, while many witnesses identified market access barriers of particular concern, they had mixed views about what Canada's response should be. For some, free trade negotiations were the perfect opportunity to address the more conventional NTBs that inevitably exist when two sovereign nations adopt policies independently, as well as an opportunity to shine the light on some of the more egregious barriers to the Korean market.

1 House of Commons Standing Committee on International Trade, Proceedings, Meeting No. 7, December 6, 2007, <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=222934&Lang=1&PARLSES=392&JNT=0&COM=13181>.

Other witnesses were skeptical that a trade agreement would ever be able to address NTBs to the satisfaction of their respective industries. This was a particular concern with the auto sector and will be addressed further below.

Another issue related to non-tariff barriers is improved market access in certain sectors. To the extent that free trade negotiations are successful in opening up some of Korea's restricted sectors, there could be created significant economic opportunities for Canadians. This is especially true for Canada's service industries.

Canada-Korea trade in services is relatively modest at present, but according to several witnesses, there are considerable market access barriers preventing further expansion of services trade between the two countries. A trade agreement that addressed those barriers could be a boon for the services sector. As Yuen Pau Woo (President and Co-Chief Executive Officer, Asia Pacific Foundation of Canada) noted:

[T]he long-term benefits of a free trade agreement with Korea, and the gains for Canada, will accrue mostly not to the resource sector, but to the financial services sector and to the other service industries, such as cultural industries and IT and technology sectors, which are very important in B.C. and in the West, but also in Ontario and Quebec.²

Shirley-Ann George (Vice-President, International, Canadian Chamber of Commerce) echoed these comments. She pointed specifically to Canada's insurance services sector and high-tech sector as two examples of service industries that could greatly benefit from improved access to the Korean market, creating economic opportunities and jobs in both countries. Robert Crow (Vice-President, Industry, University and Government Relations, Research in Motion) agreed, stating that Korea could represent a considerable opportunity for his company should specific market access barriers be removed.

C. Korea as a Gateway into Asia and Access to Global Supply Chains

Korea's expanding network of free trade agreements provides other indirect opportunities for Canadian businesses. First, Canadian companies can use Korea as a beachhead from which to pursue trade and investment opportunities in other Asian countries. Second, access to the Korean market allows Canada to more effectively participate in global supply chains.

On the first point, expanding trade into Asia is a policy priority for Canada and has been the subject of several reports by this Committee in recent years. A free trade

2 House of Commons Standing Committee on International Trade, Proceedings, Meeting No. 5, November 29, 2007, <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=221338&Lang=1&PARLSES=392&JNT=0&COM=13181>.

agreement with Korea would make it easier for Canadian companies to do business in that country and could encourage Canadian foreign direct investment in that market. Through the commercial interaction that comes with closer economic ties with Korean enterprises, Canadian businesses can generate contacts elsewhere in the region. As Ian Burney observed:

[W]hen you see Canadian companies teaming up with some of the big chaebols and other big companies in Korea, these companies know very well how business is carried out in China, in Japan, and elsewhere, and they have business relationships throughout. To the extent that we can have Canadian companies team up with them to pursue opportunities in the region, I think there would be enormous advantages for Canada.³

Moreover, once established in Korea, Canadian firms would be able to take advantage of the rules of origin provisions in that country's network of free trade agreements. By so doing, those companies could gain better access to other markets in Asia than would be the case if exporting directly from Canada.

On the second point, it is well-established that improving Canada's participation in global supply chains is an international policy priority for Canada. The Minister of International Trade, David Emerson has made that point repeatedly in his appearances before this Committee. To the extent that a Canada-Korea free trade agreement improves Canada's access to cheaper imports, Canadian companies using those products benefit from lower overall production costs. As Jean Michel Laurin (Vice-President, Research and Public Affairs - Quebec Division, Canadian Manufacturers and Exporters) noted, there is the potential for some global sourcing opportunities for companies looking to import parts or other production inputs from a lower-cost country. Moreover, imports from Korea could also benefit Canadians by lowering the cost of productivity-enhancing investments and some consumer goods.

D. Expanding Canada's Export Base

For some, one of the advantages of a free trade agreement with Korea is that it provides an opportunity for Canadian exporters to access new markets and reduce their reliance on sales to the United States. Recent trade disputes between the two countries and a higher Canadian dollar, as well as ongoing security and border concerns, have led some Canadian exporters to look into diversifying their export portfolio.

The goal of trade diversification was especially pertinent to those witnesses representing sectors which have been the subject of U.S. trade investigations in the past.

3 House of Commons Standing Committee on International Trade, Proceedings, Meeting No. 7, December 6, 2007, <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=222934&Lang=1&PARLSES=392&JNT=0&COM=13181>.

Martin Lavoie (Assistant Executive Director, Canada Pork International) noted that his organization was created for the purpose of diversifying exports away from the U.S. market. Witnesses representing Canadian beef producers and the forestry sector also pointed to the benefits of exploring other market opportunities.

E. Preserving Canada's Access to the Korean Market

Strategic considerations are another important reason why Canada is pursuing a free trade agreement with Korea. With little reason to be optimistic about a breakthrough in multilateral talks at the WTO, there has been a proliferation of bilateral and regional trade liberalization agreements around the world. Countries are acting both offensively and defensively. On the one hand, they are looking to get a leg up on their competitors by negotiating trade agreements that offer preferential access to markets around the world. On the other, they are also signing bilateral trade deals in response to their competitors already having done so, or in an effort to prevent the erosion of their existing trade relationships.

Korea has been particularly active in negotiating free trade agreements with countries around the world. As Ian Burney noted, Korea has already implemented FTAs with Chile, Singapore, the European Free Trade Association (EFTA) and the Association of East Asian Nations (ASEAN). It is also actively negotiating with Mexico, India and the European Union. Most importantly perhaps, from Canada's perspective, Korea has signed an FTA with the United States, although this deal has not yet been ratified and may not proceed.

For many witnesses, the fact that Korea has signed free trade agreements with several of Canada's largest international competitors, and is actively negotiating with several others, is a potential threat to Canadian exporters. If, for example, the United States or the European Union gain access to the Korean market at better terms than Canadian exporters enjoy, then many Canadian businesses could find themselves effectively shut out of the country's seventh largest export destination.

For example, Korea's MFN tariff rate on fish and seafood products ranges from 10% to 20% depending on the specific product. Every country that signs a free trade agreement with Korea (and exports fish and seafood products) can sell in the Korean market tariff-free or at much lower tariff rates, depending on the terms of the agreement. Canadian exporters would then be operating at a significant disadvantage and could be effectively priced out of the Korean market.

IV. RESERVATIONS ABOUT FREE TRADE WITH SOUTH KOREA

A number of witnesses expressed serious reservations about a potential Canada-Korea free trade agreement. For some, Korea was the wrong free trade partner

for Canada. The composition of Canada-Korea trade, the difficulties in penetrating the Korean market, and the effect of increased foreign competition in certain sectors of the Canadian economy were all excellent reasons why Canada should walk away from the negotiating table. For others, their concerns lay not in the idea of free trade with Korea, but in the specifics of the ongoing negotiations. These witnesses were supportive of free trade in principle, but also recognized that a hastily-negotiated deal — one which failed to address specific issues and concerns — could do serious harm to the Canadian economy. The major concerns raised by witnesses are summarized below.

A. Concerns about a Canada-Korea Free Trade Agreement

1. Free Trade Would Adversely Impact the Canadian Manufacturing Sector

This was perhaps the most frequent concern raised to the Committee. Several witnesses doubted that the expected benefits of free trade with Korea in other sectors would outweigh the costs of the agreement which, in their view, would be borne directly by the manufacturing sector.

Although Korean tariffs on industrial goods are higher than Canadian tariffs, many witnesses representing manufacturing industries or associated labour unions were convinced that free trade would result in a flood of imported manufactured goods into Canada and, by consequence, a loss of Canadian jobs. This concern was magnified by Korea's reputation as a difficult market for foreign manufacturers to penetrate because of the prevalence of non-tariff barriers.

It was also suggested that the timing of a free trade agreement was particularly bad for manufacturers. The manufacturing sector has lost a very significant number of jobs in recent years, owing in large part to the tremendous rise in the Canadian dollar (against the U.S. dollar). Because a higher dollar makes Canadian products less competitive abroad, signing a free trade agreement in the near future would expose the Canadian manufacturing sector to competition from Korea at a time when the exchange rate has driven up the price of Canadian goods internationally.

The Committee also heard that when manufacturing jobs are lost, they are often replaced by inferior jobs in other sectors. Several witnesses therefore called on the Canadian Government to establish an industrial/manufacturing policy to help the sector adapt to changing economic conditions and to protect these important Canadian industries.

A related issue is subsidies and other government support offered to certain industries in Korea. The Committee heard from the Shipbuilding Association of Canada as well as the Shipyard General Workers' Federation. Both groups expressed their concern about opening up trade with Korea which is not only the world's largest producer of ships,

offshore oil platforms and related products, but achieved that position through considerable financial support from the Korean government. In their view, because a Canada-Korea FTA cannot possibly address the issue of Korean shipbuilding subsidies, Canada should not expose its shipbuilding industry to unfair competition from subsidized Korean products.

The debate over whether or not free trade with Korea would harm Canadian manufacturers has, to some extent, been fuelled by the ambiguous results that have come out of various economic impact assessments of a potential trade deal. Three major studies have been conducted on the projected impacts of Canada-Korea free trade, but, as the Committee learned, there is considerable debate as to the validity of their findings.

The first of these studies was conducted by Industry Canada. It focused on the impact of a Canada-Korea FTA on Canadian light vehicle production. Based on the current tariff rate on imported vehicles from Korea (6.1%), the study found that the effects on that sector would be minimal: a modest decrease in Canadian auto production and a larger increase in Korean imports. The increase in imports would come largely at the expense of imports from other countries that produce similar vehicles.

The second study was an independent analysis commissioned by the Government of Canada and conducted by Johannes Van Biesebrouck at the University of Toronto. It also focused on the vehicle assembly sector and its findings were similar to the Industry Canada study.

The third study, *Employment Implications of Trade Liberalization with East Asia*, was produced by Jim Stanford, an economist with the Canadian Auto Workers (CAW) union, and Daniel Poon from Carleton University. That study examined the effects of Canada's previous free trade agreements with the U.S., Mexico, Chile, Israel and Costa Rica on Canada's trade balances with those partners, and used those trends as a basis for predicting the effects of a Canada-South Korea free trade agreement.

According to the main findings of this report, a free trade agreement would result in Canada having a trade deficit with South Korea that is \$10.9 billion higher (in manufacturing) than it was in 2005 (\$2.8 billion). This increase in the trade deficit would cost the Canadian economy 33,358 jobs, equivalent to about a 0.2% decrease in employment over current levels. Within that total is included an expected loss of 4,061 jobs in motor vehicles and parts manufacturing.

These three studies were the source of much debate during the Committee's hearings. Witnesses from DFAIT and others such as Yuen Pau Woo were sharply critical of the methodology used in the CAW report. At the same time, however, several other witnesses believed that the conclusions of that study represented the most likely result of a Canada-Korea FTA. Similarly, Jim Stanford (Chief Economist, Canadian Auto Workers Union) and others called into question the methodology and results of the two studies commissioned by the Government of Canada.

2. Free Trade Would Entrench Canada as a Resource-Based Economy

The Committee also heard that the present structure of Canada-Korea trade did not make that country a good free trade partner for Canada. Canada's large trade deficit with Korea was cited as a particular concern. As well, as Etienne Couture (President, Réseau des ingénieurs du Québec) noted, the majority of products imported into Canada from South Korea are high-value-added manufactured goods, while Canadian exports tend to be resource-based products.

Mr. Couture, and other witnesses, suggested that the prospect of lower Canadian tariffs on Korean manufactured goods would only widen this imbalance. They argued that Canada's trade deficit with Korea would grow larger, and that any gains in exports made by resource based industries would be more than offset by losses in manufacturing.

For some witnesses, this was the opposite of what Canada should be doing. In their view, free trade with Korea would erode the domestic manufacturing base and only entrench Canada as a provider of raw materials to the world. Teresa Healy (Senior Researcher, Canadian Labour Congress) suggested that increasing resource exports at the expense of the manufacturing sector would significantly weaken the Canadian economy. In her view, it was important for Canada instead to build its high-tech manufacturing capacity and establish a vibrant capital goods sector.

3. A Free Trade Agreement Would not Address Korean Non-Tariff Barriers

One of the main reasons many witnesses thought Canada would not benefit from free trade with Korea is because of the presence of numerous non-tariff barriers in the Korean market. As stated earlier in this report, some witnesses saw the ongoing free trade negotiations as an opportunity for Canada to address some of these issues. Others, however, had a very different perspective, particularly those representing automobile and parts producers, as well as associated labour unions. In their view, the non-tariff barriers facing Canadian automobiles and parts were pervasive, ill-defined and virtually insurmountable.

As noted by Scott Sinclair (Senior Research Fellow, Canadian Centre for Policy Alternatives), the Korean market is virtually closed to foreign vehicles because of a series of nebulous and shifting non-tariff barriers. In his view, these barriers are evident in a simple comparison of automobile trade between Canada and Korea: Korean exports to Canada outstrip Canadian exports to Korea by a ratio of 153:1.

Korea has an international reputation as a *de facto* closed market for foreign vehicles. As Mark Nantais (President, Canadian Vehicle Manufacturers Association) reminded the Committee, the U.S. and Korea signed two separate memoranda of understanding in the 1990s aimed at eliminating specific non-tariff barriers in Korea and

encouraging two-way trade. According to Mr. Nantais, the Korean government made only minimal progress in removing some of these NTBs, but then introduced a new series of barriers, thus ensuring that the Korean market remained effectively closed.

Non-tariff barriers and auto trade have also been a major point of contention in Korea's other free trade talks; its negotiations with the U.S. were greatly complicated by this issue. The European Union has also encountered similar difficulties in its ongoing negotiations with Korea.

According to a number of auto industry representatives, given the fact that the U.S. and the EU have had little success in cracking the Korean market, there was little reason to expect that a Canada-Korea FTA would succeed where other attempts had failed. Gerald Fedchun (President, Automotive Parts Manufacturers' Association) was among those who held this view. According to Mr. Fedchun, until Korea proves that it has removed all non-tariff barriers — a proof that can only be demonstrated by significantly more balanced trade in autos between Canada and Korea — Canada should not be signing a free trade agreement with that country.

Mark Nantais indicated that Canada's proposed FTA with Korea was the only agreement the Canadian Vehicle Manufacturers' Association (CVMA) did not publicly support, for the simple reason that, in his view, a trade deal was unlikely to open the Korean market to Canadian motor vehicles.

Since lifting a complete ban on imported finished vehicles, the Korean government has used a series of very complex and reoccurring non-tariff barriers to keep their market closed. . . . Unfortunately, Canada's opportunities in the wealthy and vibrant South Korean market are limited by government protectionist actions.⁴

Other witnesses were somewhat less pessimistic. While they acknowledged that non-tariff barriers were an important issue, especially in the auto sector, they suggested that free trade negotiations could be a good vehicle through which to address these concerns. It was noted that the Korea-U.S. deal contains a number of provisions aimed at trade in autos, including an accelerated dispute resolution mechanism and a snap-back provision whereby if the dispute resolution mechanism determined that Korea violated its commitment to address NTBs, then U.S. tariffs would automatically return to most-favoured nation rates.

4 House of Commons Standing Committee on International Trade, Proceedings, Meeting No. 8, December 11, 2007, <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=223145&Lang=1&PARLSES=392&JNT=0&COM=13181>.

4. Canada May Not Receive the Same Level of Market Access as Other Countries

The Committee heard repeatedly that Canada should not rush into an agreement with Korea for the sake of reaching a deal. Several witnesses insisted that a Canada-Korea FTA would actually do more harm than good if it failed to restore a competitive balance in the Korean market for Canadian exporters vis-à-vis their international competitors.

This issue was of particular concern to witnesses representing Canadian agriculture and agri-food industries. Several of Canada's competitors in agri-food markets have already signed a free trade agreement with Korea — the U.S., Chile and EFTA, for example — while others are in the process of negotiating an agreement (the European Union).

The Committee heard that, should Canada complete a free trade deal that does not provide the same level of access to the Korean market as already won by its competitors, Canadian producers could find themselves at a long term competitive disadvantage in that market. In other words, the actual level of the tariff negotiated matters much less than ensuring Canadian producers have access to the Korean market at the same terms as its competitors, especially those in the U.S. In the extreme case, if Canadian products face a permanent price disadvantage, they could find themselves shut out of the Korean market entirely.

John Masswohl (Director, Governmental International Relations, Canadian Cattlemen's Association) reminded the Committee that "One of the government's stated objectives for conducting and reaching these free-trade agreements is to ensure the Canadian exporters remain competitive in markets where the United States have reached agreements."⁵ He expressed concern that Canada's recently-signed free trade agreement with Peru fails to meet that objective for the beef industry. In his view, the same mistake should not be made in Canada-Korea negotiations.

Failure to achieve tariff parity not only puts Canadian exporters at a competitive disadvantage, but, as Mr. Masswohl noted, threatens the long-term viability of value-added agri-food processing activity in Canada:

5 House of Commons Standing Committee on International Trade, Proceedings, Meeting No. 11, February 4, 2008, <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=226295&Lang=1&PARLSES=392&JNT=0&COM=13181>.

Every time the U.S. gets better access for its beef than Canada, it becomes more difficult to justify slaughtering cattle in Canada and we increase our reliance on shipping live cattle to the United States.⁶

The issue of tariff parity is not limited to like commodities, but direct substitutes as well. Dave Hickling (Vice-President, Canola Utilization, Canola Council of Canada) stated that it was important that Canadian canola seed and oil achieve the same tariff reductions — and tariff reduction schedule — as gained by soybean oil producers in the U.S. Failure to do so would limit the expected gains from free trade with Korea. Jan Westcott (President and Chief Executive Officer, Spirits Canada/Association of Canadian Distillers) made a similar point in reference to Canadian whiskies and bourbon from the U.S..

5. Stakeholder Consultations

The subject of stakeholder consultations was also raised by several witnesses. On this topic, however, views were mixed. In general, most labour unions, federations and some public policy groups indicated that their organizations had not been consulted by federal government officials during the course of free trade negotiations. For this reason, they felt that their views and concerns would not be adequately reflected at the negotiating table.

By contrast, virtually all major Canadian enterprises, industry associations and business groups indicated that they were consulted. Indeed, most believed that the level of government consultation was more than adequate both in advance of official negotiations and during the process. This was true even in sectors like shipbuilding which have grave concerns about their future long run competitiveness with Korea. Vice-Admiral (ret.) Peter Cairns (President, Shipbuilding Association of Canada) noted that the shipbuilding industry has been well represented by Canadian trade negotiators.

This is not to say that all groups were satisfied with the results of government consultations, however. Some acknowledged that they had been consulted, but did not think that the level of consultation was sufficient. They also expressed frustration that their proposals to Canadian negotiators were not more carefully considered. As Mark Nantais stated,

We made several recommendations and put forward some very significant proposals on how we thought it would be best to approach tariff reductions, dispute resolution mechanisms and so forth. Many of them were developed by some of the most reputable

6 Ibid.

trade lawyers in Canada, only to be dismissed on the basis that this is policy that we've never used before in a free trade agreement.⁷

6. Transition and Support Mechanisms

A final general concern raised by witnesses relates to the potential impact on the Canadian economy should Canada sign an FTA with Korea. Several witnesses highlighted the need for Canada to put transition measures and support mechanisms in place to help Canadian industries and workers adapt to free trade with Korea — especially for those in the manufacturing sector. As Etienne Couture noted, one of the conditions of a free trade agreement with South Korea should be that any such agreement is:

[A]ccompanied by a formal commitment by the government to provide more support for Canadian companies, particularly ones in the industrial sector, so that they can develop greater international market presence.⁸

A number of witnesses had similar views. Jean Michel Laurin stated that future growth in manufacturing depends on the ability of Canadian companies to invest in plant modernization, employees' skills, innovation and product and market development.

Shirley-Ann George agreed. In her view, every trade deal has winners and losers; countries that are growing and adapting well to global trade are often those that have such mechanisms in place.

7. Other Concerns

While most of the major concerns raised by witnesses have been identified above, there were others that warrant mention as well. Some witnesses, like Josée Lamoureux (conseillère syndicale, Confédération des syndicats nationaux), raised the issue of labour rights, both in Canada and in Korea. Other witnesses were concerned about the presence of investor-state provisions similar to Chapter 11 of the North American Free Trade Agreement (NAFTA) in any final agreement. Some were troubled by the potential environmental impact the agreement. Finally, some were fundamentally opposed to the

7 House of Commons Standing Committee on International Trade, Proceedings, Meeting No. 8, December 11, 2007, <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=223145&Lang=1&PARLSES=392&JNT=0&COM=13181>.

8 House of Commons Standing Committee on International Trade, Proceedings, Meeting No. 9, December 13, 2007, <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=223121&Lang=1&PARLSES=392&JNT=0&COM=13181>.

use of NAFTA as a template for other bilateral trade deals. They argued that Canada should instead pursue trade agreements that centre on fair trade and social justice.

B. Taking the Next Step: To Continue with Negotiations or to Walk Away?

Based on the concerns cited above, as well as the ambiguous results from the various economic impact assessments undertaken, some witnesses were either opposed outright to a Canada-Korea FTA, or their support for a deal was contingent upon several conditions that were not achievable in the near term. Simply put, they did not believe that, in the present context, the expected benefits of free trade with Korea would outweigh the costs to the Canadian economy. In their view, Canada should therefore walk away from the negotiating table.

Others who expressed reservations about free trade with South Korea did so not because they were opposed to a deal in principle, but because they doubted the federal government's ability to negotiate an agreement that addressed specific issues to their satisfaction, mostly pertaining to market access. Witnesses have provided this Committee with valuable evidence regarding these concerns.

In spite of the volume of evidence received, the Committee notes that there are still many unanswered questions about the Canada-Korea FTA negotiations and their potential impact. For one, it is difficult to form any conclusions on the value of a Canada-Korea free trade agreement on the basis of the economic impact studies that have been published. The Industry Canada study and the Dr. Van Biesebrouck study focused solely on the auto sector, implying that economic impact from minimal losses in Canadian auto production would be offset by gains in other sectors. Moreover, those studies did not study the effect of free trade on jobs in Canada.

For its part, the most widely-cited conclusion of the CAW report did not directly examine trade barriers or market access issues between Canada and Korea, but instead focused on Canada's past experience with free trade with other countries. Specifically, it observed that, on average, Canada's previous FTAs resulted in an increase in exports of 100%, and an increase in imports of 250%. The CAW study assumed that a Canada-Korea FTA would yield the same result. It also considered trade deficits in Canada to be akin to domestic jobs foregone. Finally, while the CAW study had the advantage of being much broader in scope than the other two studies, its focus was limited to the manufacturing sector. Agriculture and services — two areas expected to gain the most from a free trade agreement — were beyond the scope of the study.

Moreover, these three, and nearly all other economic impact assessments of free trade agreements suffer from two other major limitations. The first is that these analyses tend to focus exclusively on the impact of tariff reduction. This is less of a flaw as much as a technical limitation. The fundamental purpose of FTAs is to significantly reduce or eliminate import tariffs. However, as our Committee testimony has revealed, modern free

trade agreements include much more than just tariff reduction. Non-tariff barriers, market access restrictions, investment protection, environment and labour agreements, intellectual property protection and government procurement are all part of contemporary trade deals. It is nearly impossible to capture these other elements of FTAs in economic models. Forecasting the effects of tariff elimination is straightforward by comparison. As Jean Michel Laurin stated:

I think probably the big problem in trying to assess the impact of that trade agreement is that it's very hard to assess what type of improved market access we'll have into Korea, because we're talking about non-tariff barriers. If you're talking about tariff barriers, you can pretty much fit them into an equation and just do an economic model and figure it out. But you're talking about non-tariff barriers, so it all depends on what type of improved access we really gain.⁹

The second, and related, limitation is that it is impossible to predict the impact of a free trade agreement without knowing what is contained in that agreement. Canada and Korea are still in the midst of negotiations; no deal has been concluded. According to Shirley Ann George, it is too early to come to a conclusion on whether or not a Canada-Korea FTA is a good or bad deal; there are far too many unanswered questions. In the absence of a final agreement, any assessment of the impacts of a trade agreement borders on conjecture.

Having weighed the evidence, this Committee believes that Canada should not, as some have suggested, walk away from FTA negotiations with Korea perhaps to revisit them at some undetermined point in the future. In our view, it would be premature to dismiss the outcome of those talks before knowing what is contained in the final agreement. Instead, we believe that Canada should continue to negotiate in good faith, with a view to maximizing the potential benefit to Canadians. Once an agreement is signed, this Committee, and Canadians in general, will be in a better position to weigh it on its merits and drawbacks.

V. POLICY RECOMMENDATIONS: SECURING THE BEST DEAL POSSIBLE

When the Committee began its study of the Canada-Korea free trade negotiations, its objective was to ensure that if Canada was successful in reaching an agreement with Korea that any such deal was in the best interests of Canadians. To that end, we have received valuable testimony regarding the potential benefits and drawbacks of a trade agreement with Korea, as well as specific issues that, if addressed in the final text of an FTA, will ensure that Canada achieves the best possible results in its ongoing negotiations.

The recommendations which follow are intended to address those issues. They range from specific proposals that would benefit individual sectors to linchpin

9 Ibid.

recommendations that, in our view, are critical to ensuring that any final trade agreement is acceptable to Canadians.

A. Achieving Tariff Parity with Canada's Major International Competitors

The Committee heard from numerous witnesses that it was important for Canada to sign a free trade agreement with Korea if only for the simple fact that several of its competitors have already done so. We were told that if Canada does not get access to the Korean market on the same terms as its competitors, then Canadian exporters will lose their foothold in that market.

At the same time, however, we also heard that Canada should not sign any deal simply for the sake of concluding an agreement. A trade agreement that puts Canada at a permanent tariff disadvantage in specific sectors vis-à-vis the U.S., Chile or any other of Canada's competitors would have the same result.

Because Canada is not as large and powerful a market as the United States, it could prove difficult to extract the same concessions from Korean negotiators as those won by the U.S. This puts Canada's trade negotiators in a difficult position as they are under considerable pressure to secure a deal at least as good as the Korea-U.S. FTA, but without the stronger U.S. bargaining position.

Recommendation 1:

That the Government of Canada make every effort to ensure that Canada negotiates access to the Korean market on the same or better terms as already gained by its international competitors.

One of the challenges with Recommendation 1 is that even as Canada struggles to reach a free trade deal on the same terms as Korea granted its other FTA partners, Korea is actively pursuing new deals with other countries and regions, including the European Union. If a competing market succeeds in negotiating better terms than Canada was able to achieve, then the problem of Canadian companies operating at a disadvantage reappears.

To solve this problem, several witnesses suggested that Canada negotiate a "most-favoured nation clause" (or "MFN clause") with Korea. Under such a provision, if, subsequent to a Canada-Korea FTA, Korea negotiates an agreement with another country that offers better terms, then Canada would automatically receive those same terms.

Recommendation 2:

That, to ensure that Canadian industries are not put at a disadvantage in the Korean market in the future, the Government of Canada negotiate a most-favoured nation clause in the Canada-Korea free trade agreement.

B. Addressing Market Access Barriers facing Canadian Automobile Manufacturers

The issue of non-tariff barriers and limited access to the Korean market for Canadian automobile and parts producers is one of the chief stumbling blocks towards achieving a free trade agreement. The Korean auto market is well-known for its pervasive but subtle non-tariff barriers that have greatly limited vehicle imports, not just from Canada but from around the world.

Witnesses did not doubt that the Government of Canada had every intention of addressing the issue of Korean NTBs at the negotiating table. Nor were they against free trade on principle. Rather, given the failure of other countries to break into the Korean market, they were skeptical that Canada's negotiators would be successful at breaking down the wall of NTBs and that Korea would grant reciprocal access to Canadian vehicles.

For their part, DFAIT officials told the Committee that their goal was "to establish the most extensive, robust, state-of-the-art provisions Canada has ever sought in an FTA with respect to Korea's non-tariff barriers in the auto sector."¹⁰ They also suggested that Canada had "proposed an innovative dispute settlement mechanism for autos."¹¹ Officials suggested that Canada is looking for an overall package comparable to that included in the Korea-U.S. FTA.

Based on the testimony of witnesses, we propose three recommendations that we believe are critical to ensuring that the concerns of the Canadian auto sector are addressed in any final trade agreement with Korea. The first is that Canada should not trade off accelerated tariff phase-out in automobiles for promises of market access, or for any other FTA provision. The Committee heard that the auto industry, and manufacturing in general, is struggling with several challenges, including a high Canadian dollar. Accelerated tariff reduction would only exacerbate these challenges.

10 House of Commons Standing Committee on International Trade, Proceedings, Meeting No. 7, December 6, 2007, <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=222934&Lang=1&PARLSES=392&JNT=0&COM=13181.I>

11 Ibid.

Recommendation 3:

That, in the event that a free trade agreement with Korea is signed, the Government of Canada not include accelerated tariff phase-out provisions for automobiles and related parts.

The second recommendation is to include in the text of any final agreement an expedited dispute resolution mechanism that deals specifically with disputes related to the auto sector. The United States has negotiated such a provision in its free trade agreement with Korea and we believe it would benefit the Canadian auto industry if our trade negotiators sought a similar concession.

Recommendation 4:

That, in the event that a free trade agreement with Korea is signed, the Government of Canada should seek an expedited dispute resolution mechanism for disputes related to non-tariff barriers in the auto sector. Similar provisions in the Korea-U.S. free trade agreement should be used as a model.

In order to be effective, it is important for a system of consequences to be built in to a dispute resolution mechanism. Our third recommendation to help the auto sector deals with that issue. One way to impose a penalty on failure to address non-tariff barriers in autos is for Canada to negotiate a snap-back provision on its tariff reduction commitments.

A snap-back provision would work in the following way: if the dispute resolution mechanism identifies significant and proven non-tariff barriers facing Canadian autos in Korea, then Canada's import tariff on Korean auto products would immediately "snap back" to its pre-free trade MFN rate of 6.1%. Tariff rates would remain at this higher level until such time as the non-tariff barriers are removed.

Recommendation 5:

That the Government of Canada include a snap-back provision in any free trade agreement with Korea. Under such a provision, if an expedited dispute resolution mechanism demonstrates that Korea is not living up to its commitments to eliminate non-tariff barriers in autos, then Canada would automatically revert to its Most-Favoured Nation tariff rate on Korean autos and auto parts.

C. Re-Opening the Korean Market to Canadian Beef

Regaining access to the Korean market for beef is a high priority for the Canadian beef industry. Like many other countries, Korea closed its borders to Canadian beef in May 2003 in response to concerns over Bovine Spongiform Encephalopathy (BSE). Since that time, however, more than 100 countries have re-opened their borders to Canadian beef, but Korea has not yet done so. This in spite of the fact that Canada was recently designated as a “controlled risk” country for BSE by the World Organisation for Animal Health (OIE), signalling that all countries should accept Canadian beef.

Prior to 2003, Korea was a major market for Canadian beef exporters. We are encouraged by the fact that Korea has recently been showing a greater willingness to examine lifting its prohibition. Nevertheless, we believe that any free trade agreement with Korea should be conditional on restoring full access for Canadian beef exporters to the Korean market. We are pleased to note that this opinion is shared by the Minister of International Trade who stated to this Committee that “We would certainly not be proceeding with a free trade agreement in the absence of opening up the Korean market for Canadian beef.”¹²

Recommendation 6:

That the Government of Canada make any free trade agreement with Korea conditional on restoring access for Canadian beef exporters to the Korean market.

D. Including Geographical Indicators and Product Definitions in an Agreement

Another industry-specific concern relates to the treatment and definition of Canadian wines. Robert Keyes (Vice-President, Economic and Government Affairs, Canadian Vintners Association) noted that the Canadian wine industry is interested in establishing geographic indicators to brand the distinctiveness of Canadian wines, especially ice wines. A reference to geographic indicators in the text of a Canada-Korea free trade agreement, should one be completed, would benefit the industry. This issue was also raised by Jan Westcott with respect to Canadian whiskies.

A second issue raised by Mr. Keyes was the need for Canada to have federal legislation or regulations that defined ice wines. Currently no such definition exists. Mr. Keyes suggested that including a definition of ice wine in any Canada-Korea FTA

12 House of Commons Standing Committee on International Trade, Proceedings, Meeting No. 6, December 4, 2007, <http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?SourceId=221406&Lang=1&PARLSES=392&JNT=0&COM=13181>.

would not only be important given that Korea is now Canada's largest market in the world for ice wines, but also because of a rise in counterfeit products in China and other Asian markets.

Recommendation 7:

That the Government of Canada include a definition of ice wine in the text of a free trade agreement with Korea, as well as reference to geographic indicators for Canadian spirits and wine-producing regions.

E. Consideration of Transition Mechanisms and Worker Retraining Programs

Given their expectation that a free trade agreement with Korea would result in job losses and closure of manufacturing operations in Canada, a number of witnesses asked that any free trade agreement be accompanied by a formal commitment by the federal government to provide more support for Canadian companies affected by the agreement, especially those in the industrial sector. The goal of this federal assistance would be to create a mechanism that supports a transition for sectors of the economy impacted by an FTA, and to provide those sectors with the tools needed to adjust to the new economic environment.

This Committee acknowledges that such support could be valuable to Canadian industries affected by free trade agreements, but also agrees with those witnesses who were opposed to the subsidization of certain companies and industries in Canada. We also concur with the Minister of International Trade, David Emerson, who himself was not opposed to financial assistance but stated that it was "not something you would offer before you could demonstrate there was a unique case for than particular sector."¹³

Given that Canada has not yet signed an FTA with Korea, it would be difficult at this point to say which Canadian industries would be adversely affected by such an agreement and to what degree. We thus recommend:

Recommendation 8:

That, in the event that a free trade agreement with Korea is signed, and once the details of that agreement are known, the Government of Canada study the expected impact on all major sectors of the Canadian economy and, if warranted, consider providing financial transition support to any sector adversely affected by the agreement.

13 Ibid.

As mentioned earlier, the rise in the Canadian dollar has contributed to significant job losses in manufacturing and many believe a free trade agreement with Korea would compound that challenge. Teresa Healy noted that workers displaced by closures and layoffs and those who go on to find another job suffer an average decline of over \$10,000, which is 25% of a typical manufacturing wage. She suggested that this performance was at least partly the result of a lack of government funding and support for worker training, as well as a lack of encouragement for industry to do the same.

The fact that displaced workers in manufacturing earn less in their new jobs does speak to the need for more effort to be put into worker retraining. From 2001-2006, nearly half of all net jobs created in the Canadian economy have been in sectors in which average wages are comparable to or higher than those in manufacturing. Displaced workers in manufacturing may not be in a position to take advantage of the job opportunities which exist elsewhere.

Recommendation 9:

That, in light of recent job losses in Canadian manufacturing and the potential effect of a Canada-Korea free trade agreement on employment in that sector, the Government of Canada explore the adequacy of existing worker retraining programs, both in terms of effectiveness as well as funding levels.

F. Developing Export Markets through Trade Promotion

A free trade agreement has the potential to improve access to the Korean market and to help Canadian companies to compete for business in that country. However, the Committee also heard that trade liberalization is not the only means by which other countries develop international markets for their exporters. Many of Canada's competitors in markets like Korea also benefit from significant government support in international trade promotion. We believe that Canada should consider this approach as well. In our view, a strong trade promotion strategy and effective marketing campaigns have the potential to build the Canadian brand abroad and could be an effective means by which to develop international markets for Canadian exports. Such a strategy could run parallel to a policy of seeking out free trade agreements, or as an alternative in cases where an FTA may not be practical, desirable or easily achieved.

Recommendation 10:

That the Government of Canada seriously consider pursuing alternatives to the NAFTA free trade model, for example, by investing in a vigorous trade promotion strategy that builds the Canadian brand abroad.

VI. CONCLUSION

Over the course of its enquiry into the Canada-Korea free trade negotiations, the Committee heard a wide range of testimony. Some witnesses were adamant that Canada should walk away from free trade negotiations and seek a new template for trade agreements based on fair trade and social justice. Others supported a Canada-Korea FTA in principle, but had specific reservations about the agreement. Still others strongly endorsed free trade with Korea.

In spite of the range of views on the free trade negotiations, a central theme emerged: that there was very little information available on the negotiations themselves. Like most other formal negotiations free trade talks are conducted behind closed doors. Since the process is not yet complete, no witnesses except perhaps DFAITs trade negotiators know what shape a final agreement might take.

For this reason, we believe it to be premature for this Committee to take a position on a trade negotiation that has not yet been concluded. We are confident that the Government of Canada will not sign a deal that is bad for the country. However, we also note that the final decision on any agreement rests with Parliamentarians. If a trade deal is concluded, Members of Parliament will have a chance to debate the agreement at that time, with full knowledge of its contents, as well as to vote on the implementing legislation.

LIST OF RECOMMENDATIONS

Recommendation 1:

That the Government of Canada make every effort to ensure that Canada negotiates access to the Korean market on the same or better terms as already gained by its international competitors.

Recommendation 2:

That, to ensure that Canadian industries are not put at a disadvantage in the Korean market in the future, the Government of Canada negotiate a most-favoured nation clause in the Canada-Korea free trade agreement.

Recommendation 3:

That, in the event that a free trade agreement with Korea is signed, the Government of Canada not include accelerated tariff phase-out provisions for automobiles and related parts.

Recommendation 4:

That, in the event that a free trade agreement with Korea is signed, the Government of Canada should seek an expedited dispute resolution mechanism for disputes related to non-tariff barriers in the auto sector. Similar provisions in the Korea-U.S. free trade agreement should be used as a model.

Recommendation 5:

That the Government of Canada include a snap-back provision in any free trade agreement with Korea. Under such a provision, if an expedited dispute resolution mechanism demonstrates that Korea is not living up to its commitments to eliminate non-tariff barriers in autos, then Canada would automatically revert to its Most-Favoured Nation tariff rate on Korean autos and auto parts.

Recommendation 6:

That the Government of Canada make any free trade agreement with Korea conditional on restoring access for Canadian beef exporters to the Korean market.

Recommendation 7:

That the Government of Canada include a definition of ice wine in the text of a free trade agreement with Korea, as well as reference to geographic indicators for Canadian spirits and wine-producing regions.

Recommendation 8:

That, in the event that a free trade agreement with Korea is signed, and once the details of that agreement are known, the Government of Canada study the expected impact on all major sectors of the Canadian economy and, if warranted, consider providing financial transition support to any sector adversely affected by the agreement.

Recommendation 9:

That, in light of recent job losses in Canadian manufacturing and the potential effect of a Canada-Korea free trade agreement on employment in that sector, the Government of Canada explore the adequacy of existing worker retraining programs, both in terms of effectiveness as well as funding levels.

Recommendation 10:

That the Government of Canada seriously consider pursuing alternatives to the NAFTA free trade model, for example, by investing in a vigorous trade promotion strategy that builds the Canadian brand abroad.

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Asia Pacific Foundation of Canada Yuen Pau Woo, President and Co-Chief Executive Officer</p>	2007/11/29	5
<p>Canadian Centre for Policy Alternatives Scott Sinclair, Senior Research Fellow</p>		
<p>Global Business Development Canada Joan Baron, CEO, Vice-Chair, Canadian Chamber of Commerce in Korea</p>		
<p>Department of Agriculture and Agri-Food Denis Landreville, Associate Director, Regional and Bilateral Negotiations</p>	2007/12/06	7
<p>Department of Foreign Affairs and International Trade Ian Burney, Chief Trade Negotiator, Bilateral and Regional Dan Ciuriak, Acting Director and Deputy Chief Economist, Policy Research and Modelling Division Kendal Hembroff, Deputy Director, Bilateral Market Access Division Marvin Hildebrand, Director, Bilateral Market Access Division Cam Mackay, Deputy Director, Regional Trade Policy</p>		
<p>Automotive Parts Manufacturers' Association Gerald Fedchun, President</p>	2007/12/11	8
<p>Canadian Auto Workers Union Jim Stanford, Chief Economist</p>		
<p>Canadian Vehicle Manufacturers' Association Mark Nantais, President</p>		
<p>Canadian Manufacturers & Exporters Jean Michel Laurin, Vice-President, Global Business Policy</p>	2007/12/13	9
<p>Forest Products Association of Canada Marta Morgan, Vice President, Trade and Competitiveness</p>		
<p>Réseau des ingénieurs du Québec Etienne Couture, President</p>		

Organizations and Individuals	Date	Meeting
Marc-André Veilleux, Director, Research and Analysis		
Shipbuilding Association of Canada		
Peter Cairns, President		
Canada Pork International	2008/02/04	11
Edouard Asnong, President		
Martin Lavoie, Assistant Executive Director		
Canadian Cattlemen's Association		
John Masswohl, Director, Governmental International Relations		
Canadian Vintners Association		
Robert J. Keyes, Vice-President, Economic and Government Affairs		
Canola Council of Canada		
Dave Hickling, Vice-President, Canola Utilization		
Canadian Chamber of Commerce	2008/02/06	12
Shirley-Ann George, Vice-President, International		
Research in Motion		
Robert Crow, Vice-President, Industry, University and Government Relations		
Bombardier Inc.	2008/02/11	13
George Haynal, Vice-President, Government Relations		
Fédération des travailleurs et travailleuses du Québec		
Pierre Laliberté, Political Advisor, Manufacturing Sector		
Fisheries Council of Canada		
Patrick McGuinness, President		
Shipyard General Workers' Federation		
George MacPherson, President		
Canadian Association of Moldmakers	2008/02/13	14
Dan Moynahan, President, Platinum Tool Technologies		
Canadian Labour Congress		
Teresa Healy, Senior Researcher		

Organizations and Individuals	Date	Meeting
Confédération des syndicats nationaux	2008/02/13	14
Josée Lamoureux, Union Advisor		
Fission Energy		
Steve Khan, Executive Vice-President		
Spirits Canada / Association of Canadian Distillers		
C.J. Helie, Executive Vice-President		
Jan Westcott, President and Chief Executive Officer		

APPENDIX B LIST OF BRIEFS

Organizations

Automotive Parts Manufacturers' Association
Canada Pork International
Canadian Association of Moldmakers
Canadian Auto Workers Union
Canadian Centre for Policy Alternatives
Canadian Labour Congress
Canadian Manufacturers & Exporters
Canadian Vehicle Manufacturers' Association
Canadian Vintners Association
Canadian Wheat Board
Canola Council of Canada
Forest Products Association of Canada
Global Business Development Canada
Réseau des ingénieurs du Québec
Shipyard General Workers' Federation
Spirits Canada / Association of Canadian Distillers

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings ([Meetings Nos 5, 7, 8, 9, 11, 12, 13, 14, 15, 16 and 17](#)) is tabled.

Respectfully submitted,

Lee Richardson, MP
Chair

Supplementary Opinion

Bloc Québécois

Trade with Korea: At What Cost?

When the members of the Committee on International Trade decided to look into the repercussions for the Canadian economy of a free-trade agreement with South Korea, they voiced their concerns about the outcome of such an agreement. For its part, the Bloc Québécois was worried about the effect on Quebec's manufacturing sector, whose international competitiveness has been hit hard by the soaring Canadian petrodollar. We support the principle of diversifying export markets; but we support it as a way to enable vulnerable sectors to become less dependent on trade with the United States and thus less vulnerable, not as an excuse for exposing them to ferocious and often unfair foreign competition at a time when a number of our industries are already at a disadvantage.

The Report identifies a number of points that must necessarily be part of any future free-trade agreement with South Korea. We do not disagree with the Report's recommendations, in fact we would have liked to see them taken further. Moreover, since the Report does not recommend signing a free-trade agreement with Korea, we will not oppose it. However, we consider it necessary to review several qualifications and concerns that govern our attitude to any agreement with Korea.

First of all, although we appreciate the difficult circumstances in which the current WTO bargaining round is taking place, we must point out yet again that the current government is obsessed with devoting all its energy to concluding bilateral agreements, when the best way to open new markets in a context favourable for the Quebec economy would be through multilateral agreements. Certainly it is vital to reduce dependency on the American market, but the impact of new agreements must be carefully calculated, and a much more cautious and especially a much less doctrinaire approach to them must be taken.

In the present case, the issue of the time chosen for negotiating an agreement was raised by a number of stakeholders. The current manufacturing crisis, combined with the historical difficulty that Canadian manufactured goods have encountered when attempting to penetrate the Korean market, give the impression that Canada wants to go to war on a sick horse. Some stakeholders claimed that we could see our competitors cornering the Korean market, and Canadian companies missing the boat, if Canada does not sign a free-trade agreement.

But Canada's eagerness to sign an agreement before its competitors at any cost only heightens the risk of signing a less advantageous agreement than its competitors, which could prove worse than the absence of any free-trade agreement at all. We cannot allow anxiety to guide trade policy if we want it to be credible and effective. In the long term,

this struggle for new markets will only result in an ever-increasing number of more or less suitable treaties, which ultimately risks doing more harm than good to Canada's economy. It must also be borne in mind that Korea is a member of the WTO and that therefore 80% of Canadian products are already exempt from duties and quotas, which considerably reduces the negative effects of market exclusions caused by the absence of an FTA with Korea. In addition, the rise in the Canadian petrodollar has affected the competitiveness of Canadian products on the Korean market in a way that no free-trade agreement could ever hope to match.

Given these facts, the following questions arise: What is the advantage of signing a free-trade agreement with Korea? And why do it at such a bad time for the manufacturing sector? So far, the arguments in favour do not seem to us to be adequate.

We think that before flinging itself into an assault on Asian markets, Canada must craft a genuine industrial policy. It must free up funding to promote Canadian products abroad. It must improve the manufacturing sector's productivity through government programs for investment in research and development. It must give the manufacturing sector the capability to meet its competitors on equal terms.

The current government's laissez-faire economic policy is true economic Darwinism, based on so-called "natural" economic laws that are in fact entirely artificial. It enables Ottawa to sit back and watch Quebec's manufacturing sector being bled white, while protesting that it can do nothing because of the "immutable" laws of the international market. Just because the Conservatives want to believe their own dogma, are we supposed to let our economy lose its manufacturing sector, and the value added of the products we export, and fall back on nothing but natural resources and services? The Bloc Québécois cannot endorse this lack of vision, or allow Quebec's economy to be reduced to this point.

Supplementary Opinion

New Democratic Party

In many respects, Korea is an ideal trade partner for Canada. It is a democratic nation with a respectable record on human rights and an ideal avenue for Canada to expand its access to markets in Asia. Certainly a mutually beneficial trade relationship would be a good thing for both countries. However, the current Government's negotiations towards a Canada-Korea bilateral agreement are not in keeping with Canada's fair interests. It is a sell out for Canadian families and workers employed in the manufacturing sector because it relies on a very simplistic model that has been proven a failure.

This committee seems convinced that we should simply trust the government to negotiate a deal that is in Canada's full interest, despite the volume of witnesses and evidence that have told us this will not be the outcome. The record of this Conservative government is clear on trade negotiations: look at the softwood lumber sellout. We were told over and over again to trust the government and that it had negotiated the best deal possible. But since the agreement was implemented in October 2006, over 10,000 jobs have been lost in the forestry industry. Rubber stamping the Canada-Korea free trade deal is taking us down the same path.

No Assurances from the Government.

The government has failed to provide meaningful information clearly demonstrating that the bilateral Canada-Korea trade agreement will not have adverse consequences on employment in Canada, particularly in the manufacturing, automotive and shipbuilding sectors. Moreover, it started working on the studies it did decide to undertake after the negotiations had already started, which created a natural bias in favour of concluding an agreement, as **Dr. Jim Stanford** pointed out before this committee.¹

Echoing this point, **Mark A. Nantais** of the Canadian Vehicle Manufacturers' Association testified that "You may recall that Hyundai closed its only plant in Canada, in Quebec, in 1994. Unfortunately, the government's economic analysis failed to study these long-term economic impacts, which is why we have had such difficulty accepting claims that there will be no economic downside to Canada's auto industry and economy as a whole as a result of the proposed free trade agreement."

A study conducted by the Canadian Auto Workers Union, in addition the opinion of other witnesses who made compelling cases, have all estimated that the potential job losses in Canada as a result of the bilateral agreement with Korea would be in the thousands. This kind of situation could not come at a worse time.

As pointed out by **Dr. Teresa Healey**, Senior Researcher at Canadian Labour Congress, "it is expected that high value-added manufacturing industries will be negatively affected. These include the electronics, machinery, and automotive assembly and parts industries, and the textile and apparel industries, among others. Using real-world assumptions, the Canadian Auto Workers concludes that at least 33,000 jobs will be lost."

¹ "Evidence". Standing Committee on International Trade, Tuesday, December 11, 2007. 39th Parliament, 2nd Session. [<http://cmte.parl.gc.ca/Content/HOC/committee/392/ciit/evidence/ev3204190/ciitev08-e.htm#Int-2266325>]

Canada's Manufacturing Sector in Crisis.

The Canadian manufacturing and automotive sectors, which are one of the main contributors to quality employment and prosperity for middle-income families in the country, are experiencing a major crisis that has been ongoing for years due to a rising Canadian dollar, high energy prices and a growing trade deficit with Asia. Job losses since November 2002 have now topped 291,000. In the last year alone, 132,000 jobs have been lost. There has been no action on the behalf of this government or previous governments that would constitute a real remedy to address this crisis.

As pointed out by before the committee by **Scott Sinclair** of the Canadian Centre for Policy Alternatives, "The proposed deal would be a blow to Canadian manufacturers and manufacturing workers at a critical time when they are struggling to cope with this crisis. They are justifiably looking to Canadian governments for supportive policies, not initiatives that would make their current situation even more difficult." It is at the point of a sectoral depression, one that will affect the rest of the economy. It would be dangerous to implement any agreement that would make this situation even worse.

Canada's economic relationship with Korea is much more tied to the fluctuation of our currency than to a free trade agenda. As pointed out in a report by Industry Canada that investigated the impact of the Canada-US Free Trade Agreement on Canadian exports concluded, the Free Trade Agreement only accounted for about 9% of the increase in Canadian exports during the period of 1989-2000, while the rest was due to the depreciation of the Canadian dollar.² Logically, a similar situation will manifest itself if a Canada-Korea free trade agreement is adopted.

Looking for a Practical Approach.

Korea by nature is an export oriented economy that aggressively dominates the markets in which it concentrates its exports. Furthermore, Canada already has a significant trade deficit with Korea, topping \$2.5 billion in 2006. A bilateral trade agreement with Korea would not make sense for Canada.

Nevertheless, it is desirable that Canada and Korea, both democratic nations with relatively high standards of living, work together to negotiate sectoral trade agreements that are clearly beneficial to both countries. These agreements could relate to the energy, softwood, automotive and agricultural sectors, to name a few.

The type of jobs created in Canada to facilitate Canadian exports by this agreement will not offset the loss of high quality, family sustaining jobs that will be lost as a result of Korean imports. The vast majority of Canada's imports from Korea are cars, electronics and machinery equipment- all manufactured, value-added goods. On the other hand, Canada's main exports to Korea are unprocessed, natural resources such as wood pulp, coal and aluminium. This is not an ideal situation and the agreement being pursued by the government would only make this situation worse. Any bilateral agreement should ensure that the amount value added jobs created in both countries would be equal.

Those who will lose their job as a result of this agreement will not be able to find new jobs in the manufacturing sector. They, as many before them, will be forced to look for work in the services sectors, which provides on average lower salaries and less benefits. The services sector does not move the engine of trade in Canada: it accounts for only 13% of Canada's exports. If Canada's export industries fall on hard times, because of the natural cycle of the market or otherwise, we will only have our manufacturing industry to rely on to keep the engines of the economy moving.

² "Canada's Trade and Foreign Investment Directives with the United States: Microeconomic policy analysis." Prepared for Industry Canada, June 20-22, 2000.

This committee has heard from many witnesses in the trenches of the manufacturing crisis that have all echoed the same point, as **George MacPherson**, President of the Shipyard General Workers' Federation of B.C put it, a "F[ree]T[rade]A[greement] with South Korea the Government of Canada will drive another stake into the heart of a viable Canadian shipbuilding and marine manufacturing industry. But this stake, in comparison to others in the recent past, has all the signs of being the fatal one."

A Viable Fair Trade Policy.

New Democrats believe that Canada's trade policy should be based on the principles of fair trade, which seeks to build trading partnerships with other countries that support the principles of social justice and human rights while also expanding business opportunity.

The NDP was pleased that this committee adopted its recommendation that the government stops exclusively pursuing the free trade model at the expense of all other alternatives and that it should invest in other avenues of trade growth, including above all a vigorous trade promotion strategy that builds the Canadian brand abroad, along the lines of the Australian experience. It is shocking to see that the European Union spends in excess of 500 times more than Canada on promoting its wine industries

It is unfortunate however, that the majority of the members of this committee failed to recognize the importance of fair trade as an over-arching principle, not just an afterthought, of trade negotiations.

The NDP strongly believes in an alternative and a better form of trading relationship that can be established with Korea and any other country; one that includes within an overall fair trade strategy the following:

1. Providing a comprehensive, common sense Impact Assessment on all international agreements that demonstrates that trade deals Canada negotiates are beneficial to Canadian families, workers, and industries.
2. Ensuring that the trade agreements Canada negotiates support Canada's sovereignty and freedom to chart its own policy, support our ability to be a competitive force on the world stage, and support the principles of a multilateral fair trade system.
3. The fundamental principle that all trade agreements must promote and protect human rights by prohibiting the import, export, or sale in Canada of any product that is deemed to have been created under sweatshop conditions, forced labour, or other conditions that are not in accordance with fundamental international labour standards and human rights.
4. The fundamental principle that all trade agreements should respect sustainable development and the integrity of all ecosystems.
5. That any time the Government of Canada signs a free trade agreement, the decision to proceed with enabling legislation be subject to a binding vote on whether or not to accept the terms of the agreement.

Regretfully, the committee also failed to recommend the following, which given the current situation in the automotive and manufacturing sectors, the NDP believes is in the public interest:

1. That the government does not sign any trade agreement that would lead to a net job loss in the Canadian manufacturing sectors.

2. That the Canadian automotive sector be excluded from the Canada-Korea trade agreement, given that no clear evidence was presented by the government on how this agreement would affect employment in this sector.

3. That raw log exports from Canada be prohibited in any Canada-Korea trade agreement.

The NDP reaffirms the positions articulated in its two previous dissenting opinions submitted to this committee, of March 28, 2007 and December 3, 2007, in which it outlined its deep concerns over the government's unrestrained free trade policy and outlined its vision for a fair trade policy that puts the pursuit of social justice, strong public-sector social programs and the elimination of poverty at the heart of an effective trade strategy.

MINUTES OF PROCEEDINGS

Monday, March 3, 2008
Meeting No. 17

The Standing Committee on International Trade met *in camera* at 3:42 p.m. this day, in Room 371, West Block, the Vice-Chair, Serge Cardin, presiding.

Members of the Committee present: Dean Allison, Hon. Navdeep Bains, Ron Cannan, Serge Cardin, Peter Julian, Larry Miller and Lui Temelkovski.

Acting Members present: Laurie Hawn for Lee Richardson, Guy Lauzon for Brian Pallister, Jean-Yves Roy for Guy André and Scott Simms for Sukh Dhaliwal.

In attendance: Library of Parliament: Michael Holden, Analyst.

Pursuant to Standing Order 108(2) and the motion adopted by the Committee on November 20, 2007, the Committee resumed its study of the Proposed Canada-Korea Free Trade Agreement.

The Committee resumed consideration of a draft report.

It was agreed, — That the draft report, as amended, be adopted and the Chair present it to the House.

It was agreed, — That, pursuant to Standing Order 109, the Committee request that the Government table a comprehensive response to the report.

It was agreed, — That the Committee append to its report dissenting opinions provided that it be no more than 3 pages in length and submitted electronically to the Clerk of the Committee, in both official languages, no later than 4:00 p.m. on Wednesday, March 5, 2008.

It was agreed, — That the Chair, Clerk and analyst be authorized to make such grammatical and editorial changes as may be necessary without changing the substance of the report.

At 5:19 p.m., the Committee adjourned to the call of the Chair.



Jacques Lahaie
Clerk of the Committee

