



**HOUSE OF COMMONS  
CANADA**

**CANADA-EFTA  
FREE TRADE AGREEMENT**

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

**Lee Richardson, MP  
Chair**

**APRIL 2008**

**39th PARLIAMENT, 2nd SESSION**



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# **THE STANDING COMMITTEE ON INTERNATIONAL TRADE**

has the honour to present its

## **FOURTH REPORT**

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the Free Trade Agreement Between Canada and the States of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland) and has agreed to report the following:

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## **INTRODUCTION**

### **Committee Report: Canada-EFTA Free Trade Agreement**

In January 2008, Canada signed a free trade agreement (FTA) with Switzerland, Norway, Iceland and Liechtenstein, a group collectively known as the European Free Trade Association (EFTA). The Canada-EFTA FTA (CEFTA) is the first agreement to be tabled in the House of Commons under the federal government's new policy of allowing Members of Parliament the opportunity to review and debate international treaties by tabling those treaties in the House of Commons for 21 sitting days. The House of Commons Standing Committee on International Trade took the opportunity to conduct hearings on the CEFTA in order to contribute to those discussions. This report is the result of those hearings.

## **BACKGROUND**

It has been ten years since a Canada-EFTA free trade agreement was first proposed. Formal negotiations began in 1998, but hit an impasse in 2000 on the issue of the treatment of ships and industrial marine products. Concerns were expressed in Canada over the possibility that free trade with EFTA would require Canada to remove its 25% tariff on ships and expose the Canadian industry, already struggling with excess capacity, to increased competition from subsidized Norwegian producers. It should be noted, however, that in the time since those concerns were expressed, Norway reported that it has stopped subsidizing its shipbuilders.

His Excellency Markús Orn Antonsson, Ambassador of Iceland to Canada, noted that several attempts were made to break the impasse, but negotiations did not resume until 2006. In June 2007, the two sides announced that negotiations were completed, and in January 2008, the agreement was formally signed in Davos, Switzerland. The intent is to implement the agreement by 1 January 2009.

## **THE CANADA-EFTA FREE TRADE AGREEMENT**

The CEFTA is relatively modest in scope. It is a first-generation FTA, focusing on tariff elimination and trade in goods. Unlike the North American Free Trade Agreement (NAFTA), for example, the CEFTA does not include any substantial new commitments in investment, services or intellectual property. These issues, as well as most safeguards, anti-dumping and countervailing duties will continue to be addressed at the World Trade Organization (WTO). However, as the Committee heard, there are provisions within the agreement to allow for these issues to be revisited after three years, should the two sides wish to do so.

The CEFTA is comprised of four linked agreements: a main free trade agreement and three bilateral agreements on agriculture between Canada and Norway, Iceland and Switzerland, respectively. Liechtenstein is covered in the Canada-Switzerland agreement. Under the terms of the main agreement, tariffs on all non-agricultural products will be eliminated immediately upon entry into force of the agreement. The only exception is Canadian ship tariffs. Tariff reductions in agriculture are country-specific, as will be discussed below.



## **A. Ships, Boats and Floating Structures**

The Committee heard that the CEFTA provides the Canadian shipbuilding industry with one-way protection by which Canadian shipbuilders gain immediate and full access to the EFTA market, while certain protections are maintained in Canada.

For Canada's most sensitive shipbuilding products, there will be a 15-year phase-out of Canada's existing 25% tariff. For less sensitive products, the total phase-out period is 10 years. In all cases, however, there will be no reduction in the import tariff for the first three years of the agreement.

The sole exception is for post-panamax sized cargo ships – so named because they are too large to navigate the Panama Canal. According to officials from the Department of Foreign Affairs and International Trade (DFAIT), no Canadian shipyard claims to be able to lay down a hull of this size. The Canadian tariff on ships of this size will fall to zero immediately upon entry into force of the agreement.

Moreover, the CEFTA also includes a safeguard mechanism which offers additional protection to the Canadian shipbuilding industry. If imports from EFTA are found to be causing injury to Canadian shipbuilders within the 10-15 year phase-out period, then the tariff rate can revert to the pre-free trade rate of 25% for up to three years.

The Committee also heard that the CEFTA does not oblige Canada to modify its "Buy Canada" procurement policy for ships.

## **B. Agriculture and Agri-Food Products**

The content of the three bilateral agreements on trade in agriculture differ from one another, reflecting the unique sensitivities and priorities of Canada and the individual EFTA countries. Under all three agreements, most agriculture and agri-food products will be traded tariff-free. However, each country has gained and/or limited concessions in certain key agricultural and agri-food industries.

For example, the Committee heard that Canada did not make any over-quota tariff concessions on supply-managed agricultural products, but did grant to Switzerland tariff-free in-quota access to the Canadian cheese market. Canada also gained improved, but not tariff-free, market access to certain sensitive sectors in EFTA countries. These include frozen French fries in Iceland; frozen blueberries and durum wheat in Norway; and durum wheat and horse meat in Switzerland.

## IMPACT OF THE AGREEMENT

The Committee heard that the expected economic gains from tariff reduction under this trade agreement will be modest. Tariffs on many non-agricultural products are at nuisance levels (2% or less) and many other products are already traded tariff-free.

Nevertheless, several witnesses anticipated an increase in trade to result from this agreement. Certain Canadian industries are expected to benefit from improved market access, particularly in agriculture where most of the major tariff reductions are found. Some industrial sectors are expected to benefit as well. These include wood and metal products in Iceland, apparel products in Norway and cosmetics in Switzerland.

Witnesses also observed that the benefits of the CEFTA may not be limited to lower tariffs. Other potential gains include opportunities for trade diversification; enhanced industrial cooperation; and, through increased interaction with European businesses active in the EFTA countries, closer economic ties with the European Union. The agreement will also put Canada on an equal footing with EFTA's other free trade partners, and will give Canada an advantage over countries like the United States, which do not have a trade agreement with EFTA.

The Committee also heard that trade agreements have an important symbolic impact. George Haynal (Vice-President, Government Relations, Bombardier, Inc.) stated that trade deals create a level of confidence among investors, even if, as in the case of the CEFTA, investment is not included in the agreement. Per Øystein Vatne (First Secretary, Embassy of the Kingdom of Norway) also observed that the very presence of an FTA creates interest in the business community; the appetite for trade missions to Canada from EFTA countries has increased markedly since the CEFTA was announced.

However, some witnesses expressed reservations about the deal. Representatives from Canada's shipbuilding industry in particular were concerned about the potential impact of the CEFTA. Andrew McArthur (Independent Consultant, Board of Directors, Shipbuilding Association of Canada) noted that Norway's world-class shipbuilding industry is not subsidized today, but it owes its present competitiveness to generous government support in years past.

For this reason, Canadian shipbuilders wanted their industry to be explicitly excluded from the CEFTA, as it is from the NAFTA. They eventually agreed to accept a long-term phase-out of tariffs, but their support was contingent upon a new Canadian shipbuilding policy that included a "Buy Canada" policy for government procurement, and the combination of two existing support mechanisms that are currently mutually exclusive – the Structured Financing Facility (SFF) and provisions for accelerated capital cost allowance (ACCA).

The CEFTA includes a long-term phase out of tariffs, and preserves a "Buy Canada" procurement policy, but no action has been taken on the SFF or capital cost allowances. As per their submissions to the government, representatives of Canadian shipbuilders and marine workers were adamant that without combined access to the

SFF and ACCA, the impact of the agreement would be devastating to the industry and would lead to job losses. In their view, this additional government support was critical if the Canadian industry was to survive increased competition from Norwegian producers.

It was noted, however, that the tariff phase-out schedule (and safeguard provisions) for marine industrial goods was particularly generous. According to Cyndee Todgham Cherniak (Counsel, International Trade Group, Lang Michener, LLP), the 15-year phase-out on sensitive ship products is the second longest phase-out she had encountered in her study of 100 free trade agreements. However, Ms. Cherniak also cautioned the Committee that this “abnormally long” phase-out period could meet some resistance at the WTO from other major shipbuilding countries like China and South Korea.

In addition to shipbuilding, some concern was expressed about the impact of CEFTA on supply management in agriculture. Terry Pugh (Executive Secretary, National Farmers Union) suggested that the in-quota tariff cut for supply managed products might weaken the foundation of the supply management program.

Finally, several witnesses noted that no economic impact studies had been conducted to estimate the effect of the CEFTA on the Canadian economy. It was suggested that without such studies, it was difficult to judge whether or not the deal would be good for Canada.

## **CONCLUSION**

The CEFTA is a basic free trade agreement covering trade in goods. It includes no significant provisions on matters such as services, investment and intellectual property, but does leave the door open for these issues to be revisited.

In terms of market access, the benefits of this agreement to Canada will largely be in the agriculture and agri-food sector. Some industrial sectors will benefit as well, although in most cases, tariffs on non-agricultural products are not significant.

Shipbuilding was the most contentious issue in trade negotiations. It appears that Canada was able to successfully obtain generous phase-out terms, giving the Canadian industry considerable time to adjust to increased competition from EFTA shipbuilders. However, concerns were raised about the long-term viability of the Canadian shipbuilding sector in the absence of additional government support. Therefore, the Canadian government must without delay implement an aggressive Maritime policy to support the industry, while ensuring that any such strategy is in conformity with Canada’s commitments at the WTO.

In sum, this agreement promises modest gains in trade and could pave the way for an expanded agreement that includes subjects like services and investment. Moreover, according to several witnesses, the very presence of a free trade agreement could create interest within the business community to explore economic opportunities in Canada and EFTA. In addition to reducing tariffs, the CEFTA could act as a catalyst for increased trade, investment and economic cooperation between Canada and the EFTA countries.



## APPENDIX LIST OF WITNESSES

Organizations	Date	Meeting
<p><b>Canada Border Services Agency</b></p> <p>Brenda Goulet, Manager, Origin and Valuation Division</p>	2008/03/10	19
<p><b>Department of Agriculture and Agri-Food</b></p> <p>Frédéric Seppey, Executive Director, Strategic Trade Policy Division</p>		
<p><b>Department of Foreign Affairs and International Trade</b></p> <p>Aaron Fowler, Deputy Director, Bilateral Market Access</p> <p>David Plunkett, Director General, Bilateral and Regional Trade Policy</p> <p>Ton Zuijdwijk, General Counsel, Trade Law Bureau</p>		
<p><b>Bombardier Inc.</b></p> <p>George Haynal, Vice-President, Government Relations</p>	2008/03/12	20
<p><b>Lang Michener LLP</b></p> <p>Cyndee Todgham Cherniak, Counsel, International Trade Group</p>		
<p><b>Embassy of Iceland</b></p> <p>Markús Orn Antonsson, Ambassador of Iceland to Canada</p>	2008/03/31	21
<p><b>Embassy of Switzerland</b></p> <p>Nicolas Bruehl, Chargé d'affaires a.i.</p>		
<p><b>Embassy of the Kingdom of Norway</b></p> <p>Per Øystein Vatne, First Secretary</p>		
<p><b>Canadian Auto Workers Shipbuilding, Waterways and Marine Workers Council</b></p> <p>Karl Risser Jr., President, Halifax Local 1, Presidentl</p> <p>Jamie Vaslet, Business Agent, Financial Secretary, Halifax Local 1</p>	2008/04/02	22
<p><b>National Farmers Union</b></p> <p>Terry Pugh, Executive Secretary</p>		
<p><b>Shipbuilding Association of Canada</b></p> <p>Andrew McArthur, Independent Consultant, Member of the Board of Directors</p>		



## **Supplementary Opinion**

### **Bloc Québécois**

#### **A free trade agreement with EFTA countries: yes, if we defend supply management and quickly implement a shipbuilding policy**

The Committee's report fairly accurately reflects the evidence we heard during the hearings; strangely, however, it contains no recommendations. Although the Bloc Québécois looks favourably on the signing of a free trade agreement with the four countries that make up the European Free Trade Association, the implementation of this agreement requires the government's attention on two levels.

#### First, protecting supply management

Since the elimination of the 7% tariff provided for in the agricultural agreement with Switzerland will affect only the market segment that is already covered by imports, the impact on our producers will be minimal.

However, this will make it all the more important to vigorously defend supply management at the WTO. A quota increase coupled with the elimination of the within-quota tariff would expose our dairy farmers to increased competition from countries that, unlike Canada, subsidize their dairy production.

The House of Commons unanimously adopted the Bloc Québécois motion calling on the government to reject any reduction in the over-quota tariff rate and any quota increase. Given the elimination of the 7% tariff in the current agreement, it is imperative that the government maintain a firm position at the WTO: supply management is absolutely not negotiable. In fact, in our opinion, a weakening of supply management protection would justify the renegotiation of the agricultural agreement with Switzerland.

#### Second, shipbuilding.

The adjustment period provided for in the agreement is quite long, but it will be helpful only if accompanied by adjustment and upgrading programs for our shipyards. Otherwise, it will slow their decline but nothing more.

Norway has understood this very well. It began with a vigorous industrial policy, built up a healthy industry, and today is moving on to the next stage: working to open its industry to foreign markets.

Canada, on the contrary, has neglected its marine industry for years. Today our shipbuilding sector has fallen so far behind that it will be necessary to work in double quick time to make it up to date, productive and financially healthy when the market opens completely to competition.

The government must immediately develop an aggressive marine sector policy to allow our industry to adjust.

This policy must facilitate the industry's access to capital, stimulate investment, give preference to local suppliers in government procurements and encourage ship owners to buy vessels here. The policy must ensure that our shipyards can count on a prosperous marine transport sector, both by stimulating coastal shipping and by putting some order into international marine transport.

When it comes to supporting industrial sectors that are experiencing problems, the Conservative government practises *laissez-faire*. In the case of shipyards, this is totally unacceptable.

But we must not allow the government's defective industrial policy to saddle us with a defective trade policy as well. Rather than reject a free trade agreement with the EFTA, the Bloc Québécois intends to insist that the government rapidly introduce a series of measures designed to foster the development of the marine industry.



## **Dissenting Opinion**

### **New Democratic Party**

The Canada-EFTA Free Trade Agreement is yet another one of this government's hastily concluded bilateral trade agreements which highlights a piecemeal approach to trade that lacks a coherent, fair trade vision and policy. The NDP has major concerns, which are left unaddressed by this committee, especially with regards to the agriculture and shipbuilding sectors and is disappointed that the agreement's weaknesses have not been addressed. The NDP pushed to have the treaty studied by this committee in the first place and is disappointed but not surprised that the agreement's weaknesses have been overlooked. Destructive legacies such as the softwood lumber sell-out have eroded the NDP's confidence in the ability of this government to defend the best interest of Canada through trade agreements.

The NDP wishes to point out nevertheless that the member nations of the EFTA have strong social-democratic traditions and are ideal trading partners for Canada. Though the EFTA members have not joined the European Union, they have provided an excellent model for building a strong working relationship with their neighbouring countries. Their policies are an example for Canada as to how to strike a good balance between trade and national sovereignty without having to sell out the latter. The NDP supports building a productive and mutually beneficial trading relationship with the EFTA on a fair trade basis.

However, a major concern in the CEFTA stems from provisions regarding shipbuilding. The NDP believes that the current state of Canada's shipbuilding industry is directly related to the absence of a vigorous industrial development policy by successive federal Liberal and Conservative governments. It is precisely this type of policy that allowed Norway to become the world-class player that it is today and this is precisely what the federal government failed to do. Canada has the largest coastline in the world, yet it has no strategy for its shipbuilding industry. This situation is absolutely unacceptable. When the tariffs come down in 15 years, Canada's industry will be unable to cope with Norwegian competition.

A case in point is that even those from the business community who have a vested interest in supporting the acceleration of the EFTA, such as the Canadian Shipowner's Association, justify their support on the basis that Canada has forever lost its ability to build ships. The NDP does not share their negative assessment; it believes that with the proper support from the federal government, the domestic shipbuilding industry could be rapidly up and running. All that is missing is the federal government.

The NDP is in full support of the position of Andrew MacArthur, Member of the Board of Directors of the Shipbuilding Association of Canada, and the CAW who powerfully made their case before this Committee:

1. The shipbuilding sector must be excluded from this agreement.
2. The federal government should immediately help put together:
  - a) structured financing facility and b) an accelerated capital cost allowance for the industry.

Another area of concern for the NDP was pointed out by Terry Pugh, Executive Director of the National Farmer's Union. The provisions within the agreement concerning agriculture defer to the World Trade Organization principles and dispute mechanisms, which will have a very negative impact on supply management by weakening Canada's position. The NDP strongly opposes the WTO negative stance on supply management. Supply management should be part of the architecture of fair trade, to help ensure food supply and food safety around the world and is key to the model upon which cooperative agricultural trade should be built.

# MINUTES OF PROCEEDINGS

A copy of the relevant Minutes of Proceedings ([Meetings Nos.19, 20, 21, 22 and 23](#)) is tabled.

Respectfully submitted,

Lee Richardson, MP  
Chair

## MINUTES OF PROCEEDINGS

Meeting No. 23

Monday, April 7, 2008

The Standing Committee on International Trade met *in camera* at 3:39 p.m. this day, in Room 308, West Block, the Chair, Lee Richardson, presiding.

*Members of the Committee present:* Dean Allison, Guy André, Hon. Navdeep Bains, Ron Cannan, Sukh Dhaliwal, Peter Julian, John Maloney, Larry Miller, Lee Richardson and Lui Temelkovski.

*Acting Members present:* Jean-Yves Roy for Serge Cardin.

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

Pursuant to Standing Order 108(2) and the motion adopted by the Committee on February 25, 2008, the Committee resumed its study of the Free Trade Agreement Between Canada and the States of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland).

The Committee resumed consideration of a draft report.

It was agreed, — That the draft report , as amended, be adopted.

It was agreed, — That the Committee append to its report dissenting opinions provided that they are no more than one (1) page in length and submitted electronically to the Clerk of the Committee, in both official languages, no later than 2:00 p.m., on Wednesday, April 9, 2008.

The Committee proceeded to the consideration of matters related to Committee business.

It was agreed, — That the proposed budget in the amount of \$118,952, for the Committee's travel to Bogota (Columbia) and Panama in May 2008 be adopted and that the Chair present the said budget to the Budget Subcommittee of the Liaison Committee.

At 5:18 p.m., the Committee adjourned to the call of the Chair.

Jacques Lahaie  
Clerk of the Committee