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Chair

Mr. Lee Richardson

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● (1535)

[*English*]

The Chair (Mr. Lee Richardson (Calgary Centre, CPC)): Order, please.

Thank you for your patience and indulgence.

We still have a few members who appear otherwise occupied, but we're going to have to begin.

I'm sorry for keeping our witnesses waiting. I appreciate their punctuality.

We are going to continue today with our general review of Canada-United States trade relations, with specific reference in this meeting to procurement policies and the recent procurement agreement.

To help us through these discussions, we have a witness from Canadian Manufacturers and Exporters. Jean-Michel Laurin has been with us before. I appreciate his return on a new subject today. From the Canadian Centre for Policy Alternatives, we have Scott Sinclair, who is a senior research fellow. We again welcome back Teresa Healy, who is a senior researcher for the social and economic policy department at the Canadian Labour Congress.

With those brief introductions, I'm going to ask each of our witnesses to give brief opening remarks for up to 10 minutes, if that's agreeable to all of you. We will hear from all three of our witnesses in terms of opening remarks and we'll then go to questions.

Let me ask you to begin. I'll start with Scott Sinclair from the Canadian Centre for Policy Alternatives.

Mr. Scott Sinclair (Senior Research Fellow, Canadian Centre for Policy Alternatives): Thank you very much, Mr. Chair and honourable members.

Thank you for the invitation to appear today and for the opportunity to discuss the February 2010 Canada-U.S. government procurement agreement.

The Canada-U.S. government procurement agreement, which I'll refer to from now on in my remarks as “the agreement”, in my view fails to provide a meaningful exemption for Canadian suppliers from the Buy American provisions employed in the February 2009 U.S. stimulus package, the recovery act.

As you're aware, the agreement has three main elements: an exchange of permanent commitments under the WTO agreement on government procurement; a temporary agreement, lasting until September 2011, providing mutual access to certain state, provincial, and municipal infrastructure projects; and a pledge to explore the scope for further negotiations and agreement to expedited consultations regarding future procurement-related matters.

In the time allotted, I will briefly discuss each of these elements.

First, on the permanent commitments, under the agreement Canada will bind, for the first time, certain provincial government procurement under the WTO GPA, while in exchange the U.S. will extend its 1994 GPA commitments at the sub-federal level to Canada.

Thirty-seven U.S. states have varying levels of commitments under the GPA. Until now, Canadian suppliers have not had the right to challenge decisions to exclude them from bidding on contracts covered by these 37 U.S. states. It is difficult to estimate the quantity of state-level procurement covered by the U.S. under the GPA. Despite obligations to do so, the U.S. government does not report detailed statistics on covered procurement at the state level to the WTO committee on government procurement.

The quality of the U.S. GPA commitments at the sub-federal level, however, is poor. As I think you're aware from previous testimony, the U.S. has various exceptions, most notably for the Buy American restrictions attached to federally funded mass transit and highway projects, as well as for small business and minority set-asides. Public utility contracts are carved out, and of course there are the 13 states that have no commitments. Even in many of the 37 states that have signed on, Canadian suppliers will not be permitted to supply construction-grade steel, vehicles, or printing services, and there are other exclusions.

Importantly, Canadian suppliers are currently denied access to the 23% of U.S. federal procurement dollars set aside for small business and minority-owned businesses. Comparable set-aside programs at the state level are also fully exempted. In some states, these range from 25% to 40% off the top, as set aside for local small or minority-owned businesses. Municipal governments, as you're aware, are also not covered by the U.S. GPA commitments.

Now, in 1995, the Canadian representative to the WTO committee on government procurement, looking at this identical offer, summed up Canada's response by saying:

> It was Canada's position that, in providing increased and secure market access to its trading partners, it was not unreasonable to expect the same degree of reciprocal market access in return. In the context of the present offers, this circumstance simply did not exist.

I believe that assessment is still valid today.

For their part, Canadian provinces have agreed to cover a range of goods, services, and procurement, mainly by provincial government ministries. This is the first time that Canadian sub-national government procurement has been committed under an international agreement.

Canadian provincial governments have excluded a range of procurement programs—entities such as crown corporations and sectors such as renewable energy and mass transit—from Canada's GPA commitments. Canadian municipal government is not covered under the permanent commitments; it is under the temporary commitments, which I'll come to in a minute.

I just want to emphasize that the GPA rules prohibit governments from negotiating or considering any form of local content or “any condition or undertaking that encourages local development”, even if the procurement contract is open on a non-discriminatory basis to foreign bidders.

● (1540)

So you can't even look at which proposal, from whatever bidder, provides the greatest benefit to my community, region, or province or to the country.

To sum up, the GPA commitments will curtail Canadian provincial governments' ability to prefer Canadian goods or suppliers or to use government purchasing as an economic development tool, while leaving existing Buy American preference policies almost fully intact.

I'll turn now to the temporary commitments.

The second main element of the agreement is an arrangement that lasts until September 30, 2011. It provides mutual access to certain infrastructure and construction projects not otherwise covered by the GPA. It is difficult to obtain precise numbers on the value of the temporary commitments, but the best available estimates show that this part of the agreement greatly favours the U.S. The agreement gives Canadian suppliers an opportunity to bid on the remaining contracts under seven specific federally funded programs. While the overall budget for the seven programs totals $18 billion U.S., by December 31, two-thirds of the grants, loans, and transfers under the recovery act had already been allocated. Canadian suppliers will therefore have an opportunity to compete for no more than an estimated $6 billion U.S. of federally funded stimulus projects, representing just 2% of the procurement funded under the recovery act. The rest falls outside the scope of this agreement. The amount actually open, as a practical matter, to Canadian suppliers will be considerably less than this.

Further funds were allocated between December 31 and the date of entry into force of the agreement. Canadian suppliers' access will be restricted to contracts above the threshold. To give an example, for one of the seven programs—I think the largest—the U.S. Environmental Protection Agency reports that by February 15, 2010, over $3.5 billion U.S. of the total of $4 billion U.S. allocated under the recovery act to the clean water state revolving fund was already under contract. Similarly, by February 15, 2010, over $1.8 billion U. S. of the total of $2 billion U.S. allocated to the drinking water state revolving fund was already under contract.

In a February 16 briefing on the agreement for Quebec labour groups, a senior Quebec Department of Economic Development official stated that the ministry estimated the value of the unallocated funds of the seven U.S. programs to be $1.3 billion U.S. Given how long the negotiations have taken, the fact that only a sliver of total recovery act funded projects are covered, and that most of these moneys have already been allocated, Canadian suppliers can expect to see very little practical benefit from the temporary commitments.

In return, Canada has guaranteed U.S. suppliers access to a range of municipal and crown procurement construction projects until September 2011. The value of these contracts can be roughly estimated to be more than $25 billion Canadian. During questions I can explain how I arrived at that figure. U.S. suppliers will have the opportunity to bid on the full amount of these contracts, right up until the deadline. In sum, the temporary commitments are remarkably lopsided, with the bulk of the benefits going to the United States.

I'll comment briefly on the third element. A key demand of Canadian governments when they first entered the negotiations was that any deal should protect Canada against Buy American rules in future U.S. legislation. The agreement did not achieve this objective. Instead, it provides for expedited consultations at the request of either party on any matter related to government procurement. Such consultations must begin quickly—within 10 days—but the agreement provides no legal safeguards or guarantees to protect Canada from Buy American preferences in future U.S. legislation. In addition, the agreement provides for Canada and the U.S., as you know, to enter, within one year, discussions to explore an agreement that would expand, on a reciprocal basis, commitments with respect to market access for procurement.

● (1545)

It is difficult to say what the outcome of such talks might be, but the unbalanced nature of the current agreement and the fact that despite paying a fairly steep price Canada was unable to gain any lasting or meaningful relief from the Buy American preferences in the recovery act are not good omens for future negotiations.

Thank you.

● (1550)

The Chair: Thank you, Mr. Sinclair.

I think we'll just continue down the line.

We have Jean-Michel Laurin, from the Canadian Manufacturers and Exporters.

Again, you have 10 minutes or less, please. Thank you.

[*Translation*]

Mr. Jean-Michel Laurin (Vice-President, Global Business Policy, Canadian Manufacturers and Exporters): Thank you, Mr. Chair.

Good afternoon, ladies and gentlemen.

[*English*]

Thank you again for inviting me to appear before the committee today on behalf of Canadian Manufacturers and Exporters to discuss Canada-U.S. trade relations and, more specifically, the procurement agreement that was recently concluded between the two countries.

It's always a pleasure to be here. In fact, I remember that we had the chance to meet with this committee almost a year ago to talk about Canada-U.S. trade relations. I know the committee produced a report, and we were quite pleased to see that a recommendation that Canada should increase its lobbying and advocacy efforts in Washington was included in that report.

This afternoon I'd like to comment on the agreement that was concluded in February, share some of our ongoing concerns with Buy American restrictions in the U.S., and share some thoughts as to what we need to do going forward.

Before I start, I'd like to say a few words about the association and the members I have the privilege to represent. Canadian Manufacturers and Exporters is Canada's leading trade and industry association and the voice of manufacturing and global business in Canada. Our mission is to improve the business environment and help Canadian manufacturers and exporters compete and win in domestic and global markets by leveraging our leadership and expertise, our connections, and the strengths of our membership network. Our membership extends across Canada, includes businesses in every sector of manufacturing, and is primarily made up of small and medium-sized companies.

Last year alone, Canadian manufacturers directly exported 47% of their production, with 77% of those exports going to the United States. The U.S. is our main export market. When taking indirect exports into account, the argument can be made that we sell more to the U.S. than we sell here in Canada.

Canadian manufacturers' U.S. sales went down 23% last year, so our members have suffered greatly as a result of the U.S. recession. Despite exporters' efforts to diversify sales in other markets, for geographical and economic reasons we expect the U.S. to remain a key market for us in the foreseeable future, and also in the long term.

This is why the Buy American restrictions inserted in the American Recovery and Reinvestment Act, the U.S. version of the economic action plan, have been such an important issue for us. It explains why our association took the lead in orchestrating the fight against those restrictions in the Canadian business sector.

Our work in fighting Buy American restrictions in the recovery act started in January 2009, when Congress first proposed these restrictions. We alerted the government at the time and were glad to see the Prime Minister raise the issue directly with President Obama on a number of occasions. Despite the president's reassurances that the U.S. would respect its trade obligations, we knew this would impact our members, because NAFTA doesn't cover federal transfers to states and local governments.

Shortly thereafter, we started receiving calls from members who were saying they couldn't bid on projects unless they signed affidavits stating that their goods were made in the U.S. Businesses in various sectors, including water and waste water equipment companies, steel and fabricated metal companies, and electrical products, building products, and medical equipment sectors, were all reporting problems.

Some of our members' stories made headlines. You might have read about some of them.

Moreover, companies that should have been protected by our trade agreements, or that were not directly selling to U.S. governments, were reporting problems and losing business as well as a result of the Buy American sentiment that was spreading across the U.S.

[*Translation*]

The federal government and the provinces quickly understood the issue and began to take measures. In just a few weeks, all the provinces rallied around the strategy put forward by Minister Day of the federal government. This strategy sought to bring us back to February 16, 2009, which is the day before the American Recovery and Reinvestment Act was adopted, in the United States.

The short-term objective sought to exempt Canadian companies from the Buy American measures and to negotiate an agreement that would have a longer-term impact by opening up public markets on both sides of the border.

[*English*]

The agreement that came into force on February 16 of this year is, in our opinion, a positive step forward. It delivers gains to Canadian exporters by improving access to U.S. procurement markets. While the new procurement agreement does not deliver the blanket exclusion for Canadian manufactured products that we would have liked to see, it's a positive step forward and strengthens Canada's hand in fighting Buy American restrictions in the future.

In fact, I want to use the opportunity again to recognize and thank Prime Minister Harper, Minister Day, his colleagues in cabinet, and his staff, as well as Canada's premiers, our chief negotiator Don Stephenson, his negotiating team, Ambassador Doer in Washington, as well as all of his staff, for their leadership, their perseverance, and their hard work in concluding this, which is the first trade agreement signed by the Obama administration.

For our members this agreement basically changes five things going forward. First, the agreement exempts Canadian companies from the Buy American restrictions of the recovery act. That exemption is limited to seven programs, which Mr. Sinclair described earlier.

Second, by getting our provinces to sign on to the WTO's government procurement agreement, Canadian companies now have guaranteed access to procurement opportunities in 37 states. In other words, Canadian companies now get the same level of coverage in the U.S. that European businesses have had for years. Once the stimulus money runs out, that part of the agreement is what is going to remain in place.

Third, the agreement sets a precedent for Canada that recognizes the integrated nature of our two economies. During the negotiations and throughout the negotiations, the U.S. administration kept saying it couldn't provide Canada with an exemption because it would create a precedent. In the end we were able to get that precedent and that recognition of the special nature of our relationship, which should prove useful in the future.

Fourth, the agreement means that U.S. companies now have guaranteed access to some of our procurement markets here in Canada. We've guaranteed them access to projects funded under our own recovery act. In addition, by signing on to the WTO agreement, our provinces are providing U.S. firms with access to a range of procurement opportunities.

It should be said that those markets were by and large already open to American companies. Canadian companies were used to facing competition from the U.S. and other parts of the world in our own procurement markets here in Canada.

Finally, the agreement also sets a process for undertaking more ambitious negotiations. It provides a fast track mechanism for dealing with future Buy American restrictions and commits both governments to launching more ambitious negotiations over the next year.

The agreement doesn't solve all the problems Canadian companies are experiencing with Buy American, so it must not signal the end of our efforts to fight restrictions in our main export market.

We continue to be concerned with future legislation emanating from Congress, which would negatively impact Canada's access to the U.S. market. In fact, as long as economic security tops Americans' list of priorities, there will be strong pressures for Buy American policies in the U.S.

Through our own office in Washington, D.C., we're currently following Congress very closely, especially the U.S. appropriations process that started in February and work on any other bills that could further U.S. efforts to stimulate its economy, especially if they contain Buy American provisions.

We're also working very closely with a number of allied associations in Washington. In fact, our president is in Washington right now to meet with some of them. One thing we realize is that the key to fighting Buy American restrictions is to find those allies in the U.S. and to get them to explain that Canadians and Americans make things together, and that our economic partnership creates jobs, creates lasting wealth, and creates business opportunities in both the U.S. and Canada.

I know some of the members of this committee and some of your colleagues in Parliament have been personally involved through the Canada-United States Inter-Parliamentary Group and other avenues. I want to tell you that this makes a difference as well. Our embassy, our provinces, and our municipal leaders also need to cultivate relationships with allies and counterparts in the United States. Those also go a long way to crafting a local message and telling Americans at a local level about the impact of our trading relationship.

Finally, our work should not end with this agreement. I think this agreement is a positive step forward, but if there's a lesson we learned from this experience it's that the key to success is in building alliances across the border and in working together with these allies.

● (1555)

Thank you.

I'll be happy to answer any questions you may have.

The Chair: Thank you, Monsieur Laurin.

Now, from the Canadian Labour Congress again, we have Teresa Healy.

● (1600)

Dr. Teresa Healy (Senior Researcher, Social and Economic Policy Department, Canadian Labour Congress): Thank you, members of the committee, for the opportunity to appear before you today to present our views on the Canada-U.S. agreement on government procurement.

On behalf of the 3.2 million members of the Canadian Labour Congress, we want to thank you for this opportunity. The CLC brings together Canada's national and international unions, along with provincial and territorial federations of labour and 130 district labour councils, whose members work in virtually all sectors of the Canadian economy, in all occupations, and in all parts of the country.

For the Canadian Labour Congress, there are two important points to make about the context within which Canada has concluded this procurement agreement with the United States.

First of all, Canadian workers continue to feel the full impact of the economic crisis. The latest release from Statistics Canada indicates that Canada has lost over 250,000 full-time jobs since October 2008. The unemployment rate stands at 8.2% and is not expected to decline for the foreseeable future. The real unemployment rate—that is, the rate including discouraged workers and involuntary part-time workers—stands at over 12%. Over one and a half million men and women are without work and 20% of them have been without work for more than six months.

Secondly, the so-called recovery has been extremely fragile and partial. Throughout the world economy, countries continue to depend upon public moneys directed towards stimulus, economic development, and job creation.

These two elements, high unemployment and a fragile economy, frame our analysis of the agreement on government procurement that is before us.

I should say at the outset that the labour movement continues to believe that public money should be used to support a range of social goals. Since the economic crisis hit us with its full force, we have been calling for significant public investments in physical and social infrastructure to ensure that public funds are used to support economic recovery across the country.

We are aware that there have been concerns that the use of public money in the United States under the American Recovery and Reinvestment Act has disrupted integrated North American supply chains and has limited the access of Canadian suppliers to U.S. stimulus funds. However real that concern, over the past year the public outcry grew beyond all proportions, as stories and images of Canadian pipes being ripped out of the ground flooded the media. In response, Canadian officials committed themselves to lead the global fight against American protectionism.

The government chose not to recognize integrated industries by negotiating sectoral arrangements. Unfortunately, and as a result, we are presented now with an agreement for which we will pay dearly, we believe, long into the future. There are many problems, in our view.

The first is that Canada, for the first time, has bound provinces and two territories to permanent commitments under the WTO agreement on government procurement. In the midst of an economic crisis, provinces and territories have given up important policy space that could be better used to support the production of Canadian goods and services in both the public and the private sectors.

Secondly, in committing themselves to this agreement, governments have signalled their willingness to cede even more control over Canada's economic development in future negotiations with the United States and in ongoing negotiations with the European Union.

Thirdly, by locating this new agreement in the fight against rising protectionism, the legitimacy of Buy Canadian policies has been undermined. The agreement will have a chilling effect on governments' commitments to use public purchasing power to support economic development in the future.

Fourth, we are astonished that the government has given us no indication of the extent of the harm suffered by Canadian suppliers that has given rise to this unprecedented agreement. Information on the damages caused to Canadian suppliers because of the Buy American preferences, which have been around since the 1930s, is purely anecdotal. Because of business confidentiality concerns, information is only available to us through the press. As we have no public knowledge of the extent of damages, we cannot simply accept the view that it was U.S. preferences rather than the economic recession itself that is to blame for declining exports.

● (1605)

Fifthly, it is indeed true that there are lots of exceptions and reservations to the agreement on both sides. However, the government is unable to provide us with an accounting of costs and benefits. There have been no public studies of the potential damages to the Canadian economy as a result of the presence of larger U.S. suppliers of goods and services in the public sector, for example.

Sixth, in the agreement, procurement is considered as "contractual transactions to acquire property or services for the direct benefit or use of the government". In this definition, procurement may include the selection of a public-private partnership. It entrenches contracting out and privatization in covered entities despite the high costs and low-wage strategy that this entails.

The problem with this agreement goes beyond the question of reciprocal market access and approaches the question of what kind of state are we fashioning for the future. How are we to ensure democratic control over our economy and our society when governments willingly give up policy instruments that can strengthen social inclusion and social justice?

In "Labour's Plan to Deal with the Economic Crisis", we noted a study by Informetrica for the Federation of Canadian Municipalities that shows that $1 billion in additional spending in basic infrastructure creates 11,500 jobs, half in construction and half in other areas. As many as 18,000 jobs are created for every $1 billion of investment in energy conservation and renewable energy systems. Statistics Canada has shown that public infrastructure investment generates a return of 17% to the private sector by boosting productivity through lower operating and production costs.

Investments can also support new manufacturing jobs if they contain Buy Canada procurement requirements, as called for by the CLC and the Canadian Manufacturers and Exporters in their February 2008 position paper.

We could create 2,000 new jobs by replacing $694 million worth of public transit vehicle imports with Canadian-made products. There is broad public support for the development of a wind and solar industry, and these new industries should include Canadian content. As well, the terms of government contracts should promote a strong public sector by maintaining public sector delivery in public services. The public sector should not be undercut by government insistence on contracting out, privatization, or costly P3s. Our public sector is a means of delivering high-quality services, as well as promoting unionization, good jobs, and the inclusion of women, immigrants, and workers of colour in new hiring and associated training.

In conclusion, over the past year, the Canadian Labour Congress has been going out to communities across the country to ask people how they are experiencing the economic crisis. I will close with a quote from Brian Clark, a miner in Campbell River, British Columbia: "We've lost our fishing. We've lost our logging. We've lost our mill. We've lost our mine. What more can one town lose?"

I submit to the committee that the answer to Mr. Clark's question is before us in the current and future implications of this agreement. Without debate and without evidence, a significant policy tool has been restricted, delegitimized, and made subject to the prospect of further liberalization in new negotiations. In doing so, the public sector has been undermined. This is a development that causes us great concern indeed.

Thank you.

The Chair: Thank you.

We'll now proceed with questions.

One more member has joined us. It's nice to have the Hon. Lawrence MacAulay join us today and the Hon. Gerry Byrne. I take it we're going to have Mr. Silva start as the regular member.

We'll try to start with seven-minute rounds to let everybody have a chance to speak. So I'll keep it to seven minutes for questions and answers. If we could keep both brief, that would facilitate us better in getting through the whole thing.

Mr. Silva.

● (1610)

Mr. Mario Silva (Davenport, Lib.): Thank you, Mr. Chairman.

Let me first begin by thanking the witnesses for their testimony.

Obviously, all of us were quite concerned about the terrible bind Canada faced when the Buy American provisions and what they entailed came in. The protectionism that was happening in the U.S. was quite alarming to all of us. Given the fact that a lot of our businesses and manufacturers are in fact intertwined with their operations in the U.S., it made it extremely difficult for them to carry on their businesses.

So I realize the predicament the government was in. There was a lot of pressure to come up with an agreement. I think all of us felt that some type of agreement was necessary.

Since the agreement, there have been many of us who have had concerns about how the agreement came about, particularly on the issue of the blanket exemptions and what that means. Is that setting a type of precedent, a future precedent, for the country and our negotiations?

I'd like to hear a comment from any one of you, basically, on the blanket exemptions and the precedent-setting.

The issue of whether this also ties the hands of governments throughout the country when it comes to using public procurement to develop certain projects, to start developing economic development, and so forth is something that I think maybe some of you could help us shed some light on. Some of us are still asking questions here, and we're hoping to come to a conclusion. The concerns are out there that all of us have. Needless to say, we needed an agreement. The question we're asking is whether this is the right agreement.

It's open for anybody.

Mr. Jean-Michel Laurin: I think it's a very good question.

To rephrase what you're asking, it is: what is the deal that has been done for Canadian exporters, has it helped to improve the situation, and what are the ramifications of having such an agreement in place?

When you look at the impacts, the direct impact of the Buy American restrictions was that you had Canadian companies that couldn't bid on procurement contracts or stimulus projects in the United States. That was a direct impact, and we lost some business as a result of it. That's what we want to get fixed in the short term, but the impacts went much beyond that direct loss of sales or business contracts. You had Canadian suppliers who were no longer able to sell to their U.S. customers because their clients were not sure they could use Canadian-made inputs.

Some municipal governments were not tied by the Buy American restrictions. If they were using their own money, they could do whatever they wanted to do with it. Some of them decided they were just going to buy from American companies because they didn't want to carry two sets of inventories. So we have lost business as a result of that.

We have also lost business as a result of some Canadian companies that were supplying other companies doing business in the U.S. in procurement losing contracts and losing sales as well.

Finally, many companies were not directly impacted by Buy American restrictions, but we're saying they send the wrong signal. Many Canadian companies rely on foreign investment, and if the perception is that if you invest in Canada you might not be able to access the U.S. market, that sends the wrong signal. It makes a lot of investors afraid of putting their plants or their money in Canada.

The agreement partially solves some of those problems. The perception is that now Canada is exempted from the Buy American provisions. That's certainly a very good signal when it comes to attracting investment or even retaining our existing stock of investment in this country.

In terms of the short-term aspect of having access to procurement contracts funded by the recovery act in the U.S., we get a partial exemption. In other words, we're only exempted from seven programs, and most of the money in these programs has been spent already, so the benefits are limited. But are we better off with this agreement than with no agreement at all? We definitely are. In fact, we had discussions with the government throughout the negotiations, and I think they knew that if they had walked away from a bad deal, we would have supported them. The objective was not to get an agreement at all costs, but to get a deal that was going to improve things for Canadian companies. It's obviously not perfect, but I think we're better off with this than with no agreement at all.

Just to wrap up, you've asked whether this is tying our hands in the future or limiting what we can do in terms of using procurement in Canada. Provinces signed on to the WTO's agreement on government procurement, which provides American and only American companies with partial access to procurement contracts here in Canada. We have to say that these markets were by and large already quite open. But there is still a broad range of procurement that is not covered by this agreement. We hope both governments will be able to sit around the table and come to an agreement that would open up more markets.

As Mr. Sinclair indicated in his remarks, some markets remain closed to Canadian companies in the U.S. because of policies that have been there for quite some time. As was mentioned as well, municipalities in either the U.S. or Canada are not covered by the long-term portion of this agreement. So there is still a lot to negotiate. There is still a lot of room for improvement in terms of getting better access into markets in the U.S.

But our goal should always be to try to get better access into the U.S., rather than restricting our own markets here in Canada. There is so much more of a market in the United States for our goods and services. When you talk to Canadian companies, and I know you all do, their eyes are always first and foremost on the U.S. market. It should always be our goal to open as many opportunities and as many markets as possible for Canadian companies.

● (1615)

The Chair: Does one of you want to make a comment?

Dr. Teresa Healy: I have just a quick response.

It's very important for us to have this discussion and again bring to the fore the fact that we're in the midst of an economic crisis the likes of which none of us has ever lived through in this country. When we're talking about recovery, when we're talking about trading relationships going forward, we're not talking about business as usual; what we're talking about is the proper use of public funds. I really think that's what we have to come down to. It's not just about export relations or trade relations in a vacuum. We're talking about an economic crisis wherein governments have the possibility of using public funds to develop our economies and promote a full recovery. That goes for the way in which the Americans are deciding to use their public funds as much as it goes for the way in which we need to use our public funds.

The Chair: Sorry, we're trying to keep it to seven minutes for questions and answers. If you want to respond, maybe you can indicate at the beginning when the question is asked. Otherwise, as happened in this case, one respondent will take up all the time.

Monsieur Laforest.

[*Translation*]

Mr. Jean-Yves Laforest (Saint-Maurice—Champlain, BQ): Thank you, Mr. Chair.

I would like to welcome the witnesses.

We seldom hear of such contradictory positions. I am thinking about what Mr. Sinclair and Mr. Laurin said, more specifically, and I am also thinking about what Ms. Healy said as compared to what Mr. Laurin said.

Mr. Laurin, you said that the negotiation strategy adopted by the government and by Minister Day had tried to bring things back to February 16, 2009, when the Buy American Act was adopted after the recovery plan. I find it curious that you seem to agree with this.

How can we go back to February 16, 2009, when two-thirds of the money has already been spent? Canadian companies can no longer make any bids. We cannot bring things back to February 16, 2009. However, you seem to be saying that we can. This seems rather contradictory to me.

Mr. Jean-Michel Laurin: No, I mean that our objective at the outset was to make Canada practically exempt from the Buy American measures, and then to come to a broader agreement that would allow us to offer protection and guarantees to the provinces and to the American states. This would help prevent this kind of problem from recurring in the future.

All in all, your question is a good one. The Americans did not wait for negotiations to be over before spending their money. You are quite right in saying that a good part of the money has been spent. We do not have exact figures. As far as we can see, about 60% of the funds had been spent by the time the agreement was announced.

In any case, we are dealing with the United States and with a $787 billion recovery plan. Even if only a small slice remains, nevertheless, the opportunities are far greater than what is available in Canada.

● (1620)

Mr. Jean-Yves Laforest: In your analysis, you said that it was nonetheless interesting and that despite everything, it was worthwhile.

Mr. Jean-Michel Laurin: Yes.

Mr. Jean-Yves Laforest: As for Mr. Sinclair, he said that we are giving a great deal and getting relatively little back.

Mr. Laurin, you are even saying that the markets that we are opening up here were already open. I am not sure whether this is accurate. I would like to have Mr. Sinclair's opinion regarding this.

[*English*]

Mr. Scott Sinclair: Thank you for the question. I think there's one clear lesson from this experience and the steep price we paid in this deal for very little relief from the Buy American preferences that have been in place for a long time, although they were intensified under the recovery act. The lesson is that we should be looking at a fresh approach, as Teresa alluded to.

The Buy American policies are extremely popular in the United States. Attacking them and making it a high priority, as opposed to using quiet diplomacy, will not likely win friends in Washington and influence their future policies in a practical way.

We also have to ask ourselves how much policy flexibility we are willing to sacrifice, particularly when we can just look across the border and see our major trading partner using procurement in a very sophisticated and systematic way with a lot of popularity and support from the general population—which I think you would also find in Canada—to enhance local economic development.

In Canada we are using it to get in on the ground floor of new industries like renewable energy, Quebec Hydro's huge procurement for wind, or Ontario's Green Energy Act. Are we prepared to throw away that policy flexibility and other areas in this sort of vain hope of influencing American policy? We should be taking a hard look at what's possible.

[*Translation*]

Mr. Jean-Yves Laforest: Have I any time left? No?

Mr. Claude Guimond (Rimouski-Neigette—Témiscouata—Les Basques, BQ): Thank you, Mr. Chair. Good afternoon ladies and gentlemen.

Mr. Laurin, each time you appear, your vision of trade and of the free market surprises me, but you are entitled to your opinion.

Nevertheless, I listened carefully to your statement. With regard to the Buy American Act, you mentioned the Buy American feeling. That surprised me. Was last year's Buy American Act as bad as all that? Were these things not merely ghosts or scarecrows, as we say in Rimouski?

Mr. Jean-Michel Laurin: My answer will be brief. In fact, the Buy American measures were indeed very bad. It was the first time that the Americans enforced them. Measures similar to the Buy American measures were applied in the past, generally in some sectors or to very specific kinds of projects. It was the first time that the Americans were applying them to every kind of project funded by the recovery plan in the United States.

It was quite a serious problem for many companies in various fields of activity. So long as you are selling to the United States government, you are directly impacted. Thus, I would say yes.

I do not remember the first part of your question.

Mr. Claude Guimond: You spoke of a feeling.

Mr. Jean-Michel Laurin: In fact, our members told us that competitive American companies based in the United States use this with their clients and that they even told them that if they were not government clients, they could not buy anything from a Canadian company because the President said that Americans must buy in the United States. All this had an impact on companies in various sectors.

Mr. Claude Guimond: Concretely, have you seen any projects fail because of the Buy American Act?

● (1625)

Mr. Jean-Michel Laurin: Do you mean projects that have not been carried out?

Mr. Claude Guimond: Yes.

Mr. Jean-Michel Laurin: In fact, some companies could not bid for projects unless they signed affidavits stating that they could make the products in the United States.

For instance, in Beauce or in Quebec as a whole, several companies that deal in steel and that make water treatment equipment, whose main market was usually in the United States, lost their main market overnight.

Mr. Claude Guimond: All right.

[*English*]

The Chair: We have another round.

Mr. Allen.

Mr. Malcolm Allen (Welland, NDP): Thank you, Mr. Chair.

I thought you were going to be kind to Monsieur Guimond, as you were last week, and maybe give him some extra time.

Thank you very much for coming, folks.

Let me start with Mr. Laurin. I'm looking at a policy paper you put together with your colleagues back in February of 2008, which I have to tell you I used fairly extensively in a lot of lobbying I did with municipal councils in the Niagara region. In fact, I lobbied over half of them and was successful in all cases in talking about Buy Canadian in municipal procurement.

They actually thought they were under NAFTA, which of course we here all know is untrue. Municipalities were under the misguided belief that NAFTA covered them because the Canadian government had signed on to it. They had used that as part of their excuse not to buy Canadian with what I say is the people's dollars. They don't make profits; they collect money like every government, and it's the people's money that they collect. What I expressed to them was that they had an obligation to spend the people's money on the very people they took it from in the first place.

Of course, I used your report. I'll paraphrase it; I know that you know this report really well. You believe, according to this document of 2008, that this was a good policy instrument that the Canadian government should use; that, indeed, we should invest in Canadian manufacturers as those from whom to buy local procurement.

But today I'm hearing you say to us that the deal is not as good as you would like it to be, but that it opens the door to opening the markets eventually. So really, according to this, you would be telling the government not to have a policy lever when it comes to local procurement, because there would simply be an open border: wherever procurement comes from, so be it.

Is it fair to say it in that way, or has there been a shift in the policy directive of the Canadian Manufacturers and Exporters?

Mr. Jean-Michel Laurin: Thanks for that question.

No, actually, I think our policy has remained the same. We did that paper a couple of years ago, and it related to the Buy American measures that have been applying to federal moneys that are spent on highways and transportation infrastructure in the U.S.

Those restrictions actually have their origins in the 1930s, and they were modernized in the 1980s. They affect companies making products used in mass transit projects or in highway types of projects. These restrictions have been in place for a very long time. We were unsuccessful in NAFTA, and before that in the Canada-U. S. free trade negotiations, in getting an open market in the United States.

So our policy paper was developed as a result of that. Our members came to us. Our members making mass transit equipment and our members making steel for highways and bridges were coming to us saying, “If we can't change that policy in the U.S., we need to have a level playing field here in Canada, and maybe we should look at having policies that provide us with the same kind of domestic support.”

The objective was always, first and foremost, to get the U.S. market open, but if we're not successful with that, we need to look at our other options. That's what we were trying to tell the government. That's what we've been trying to tell people.

So the parallel with the current Buy American negotiations I think is that this agreement actually gives us an opportunity to put that issue on the table with the Americans, because they've committed to sitting down around the table and having discussions with us over procurement generally.

Are we going to be able to get any traction on that issue? I don't know. But I think the objective should always be to open the U.S. market. That's where most Canadian companies would like to do business.

Mr. Malcolm Allen: And I appreciate it.

I hate to cut you off, but I know Mr. Richardson will cut me off at seven minutes.

Mr. Jean-Michel Laurin: Yes, I know, he's tough.

Mr. Malcolm Allen: That's okay. It's a very detailed topic, and there's lots of thought to go into this.

And Mr. Richardson's just doing his job, by the way.

Mr. Chairman, I appreciate that.

It is a very detailed and difficult proposal, so I'm hoping that the CMA will indeed keep in mind what it said in 2008, as we go forward, because, as you said earlier, the deal isn't perfect. Some of us would say it's not any good, but that's a question for each of us to decide.

I have to go to Mr. Sinclair and Ms. Healey.

Mr. Laurin kindly talked about what happened with NAFTA and the FTA, and he put it in the historical context of how we didn't do so well over there. We also didn't do so well, in my view, here, which doesn't bode well for the future of international agreements. So based on that, let me ask this question about the scope of the moneys, which was unprecedented in the United States, in the following sense. Was it simply the scope of the money that was put on the table by the federal government in the U.S. that sort of heightened this awareness? Mr. Laurin clearly pointed out—and as I said, I used to use this evidence—the Buy America Act of the 1930s and the upgrades to it over the years, which are still there. Is it simply the fact that the dollars are approaching $1 trillion a pop, and they simply said, “Wow, what happened here? How come we're not in all of that? That's a big cake, how come we can't get a slice?” Or is it simply, “It's always been that way anyway, and if the cake was smaller, we didn't notice”?

Mr. Sinclair.

● (1630)

Mr. Scott Sinclair: I have to say, as someone who's followed procurement policy for 20 years, that I was somewhat taken aback at the reaction in Canada to the Buy American preferences in the recovery act. They are a long-standing feature of U.S. policy. They have systematically excluded them from most of their international trade treaty obligations. They have very good exclusions.

The psychology of it is quite interesting, because, as you point out, I believe there was a change in the position of the Canadian Manufacturers and Exporters. They had been advocating Buy Canadian policies, at least in certain specific sectors, and then suddenly, along with a number of other actors, they were, I would say, panicking about these Buy American provisions.

Now, it was partly an economic downturn. Our trade to the United States and to other markets was dropping quite dramatically, not because of the Buy American preferences, but because of the recession. It was also, as you state, the scope of the money.

I want to point out that of foreign countries, Canada was the primary beneficiary of the Obama stimulus package, that $787 billion. We benefited more, as their largest trading partner, than anyone else, except the United States. The Buy American preferences were an irritant, but they were a marginal loss.

The Chair: Mr. Holder.

Mr. Ed Holder (London West, CPC): Thanks very much, Chair.

I'd like to thank our guests for their testimony today. It is appreciated very much.

It's interesting. Last week we had our officials in to give us a broader overview of this procurement agreement, and one thing that's very compelling to me.... Last year, our committee travelled to Washington, and we selected four issues that we felt were critical to deal with. All parties around this table agreed on the four topics that had to be discussed, and it should not shock anyone that Buy American, and the provisions associated with that, was one of our major topics and a great concern to us.

Why? My political colleagues and I would hear from our businesses—businesses that, by the way, run because employees need to work and make that happen. There was huge concern about Buy American, and as I say, all parties accepted that. That was when we visited various members of Congress. That was one of the issues we dealt with.

I say that because I hear the rhetoric, if I might call it that, the comments on different perspectives from Monsieur Laurin versus Mr. Sinclair and Madame Healy. It won't surprise you the side that I come down on. I say this as a businessperson more than a politician, but I'm compelled, Monsieur Laurin...when you talk about the members you represent, you said that 47% of manufacturing in terms of your membership is export.

It begs the question, are we better off as an isolated, protectionist country, when first, it's not our history, and second, when I look at, for example, the cars that are made in this country, where the United States is the major export market? I'm not here to ask that as a question but to make the point that if we were not a trading country, I think the implications would be far greater in terms of our economy. I would agree with Ms. Healy on this one particular point, that the economy is fragile. It absolutely is, and our recovery is fragile, but when the International Monetary Fund and others say that Canada was the last to get into this global mess and the first to come out, I'd say that's very, very positive.

Enough of the speech, because it felt like a speech, and I'm sorry for that.

Monsieur Laurin, a question for you. We've heard both sides of this equation, so to you I would ask, what would happen if we didn't have this agreement? You've already said better this agreement than not an agreement. If we didn't have this agreement, what would you imagine?

● (1635)

Mr. Jean-Michel Laurin: That's a very good question. We actually asked ourselves the same question and we came to the realization...first of all, we didn't mention this already, but there were pressures in Canada to have similar types of protectionist policies, especially at the municipal level. There was a campaign orchestrated by some members of the Federation of Canadian Municipalities, which ended up actually being quite helpful in these negotiations, because you know the threat of retaliation always helps move negotiations forward. But I think there would have been tremendous pressure in Canada for some sort of retaliatory measure. I think, especially in the current environment where business has been down because of the recession, any market restriction you put in place—whether it's between Canada and the United States, whether it's between two provinces here in Canada, whether it's with other trading partners—kills jobs because it bars you from accessing certain business opportunities. We've been saying all along during those negotiations that you actually get out of a recession and you create wealth by opening up and creating new business opportunities.

So I think that has always been our focus during those negotiations. If there had been no agreement, I think we would be in a situation where there would be strong pressures on both sides of the border to put more restrictions in place. Quite frankly, we've been so much on this issue that one thing we realized is that there are so many things that Canadians and Americans make together. In every sector you find stories of a Canadian supplier selling a part to an American supplier, to a Canadian company selling its goods in the U.S. and Canada or that might be using a U.S. distributor who's selling his products in Canada.

We are really talking about one integrated economy, in many sectors. The car industry is always the example cited, but I think you could make the case with companies in almost every industrial sector in Canada. That's certainly the message we try to carry with us when we go to Washington. We've got so many examples of Canadian companies that are creating jobs in the U.S. The kind of message that really gets your point across in Washington is if you can point to the impact you're having at the local level.

So again, I think without an agreement we'd probably be worse off. We'd probably be in a tit-for-tat kind of relationship with the United States, and I think we probably would...well, I can't say for sure whether we would have prolonged the recession, but I know we would not have stopped it faster.

Mr. Ed Holder: So I guess my question to you would then be, are your members afraid to compete in the United States?

Mr. Jean-Michel Laurin: No. It's our main market. Canadian companies have used NAFTA to expand their business, and now the majority of them would consider North America to be their domestic market. It's no longer about just Canada; it's really about North America. What you're seeing companies do right now as a result of the recession is to say, how can we use North America as our own domestic market but as a base from which to grow an international market? The more that companies find specialized niches in which to compete, the more they segment and target very specific markets, the more their playing field is international. It's global.

You see a lot more Canadian companies looking at growing their business in Europe, in Latin America, and in other parts of the world because they realize that these markets are growing faster than the U. S. market and there is sometimes less competition, but also we need to get outside our own domestic base if we want to succeed as companies. I think, going forward, that's certainly a priority for Canadian companies.

● (1640)

Mr. Ed Holder: Have you ever tracked how many employees are represented by the membership in your organization?

Mr. Jean-Michel Laurin: We track it by shipments and by export sales. Our membership accounts for approximately 82% of manufacturing shipments, about 90% of exports. That's what our membership networks account for. I don't know the number of employees, but I would assume it's along the same lines.

Mr. Ed Holder: If you ever do that calculation, would you let us know?

Thank you.

The Chair: We'll have a quick round of five minutes each for questions and answers, beginning with Mr. MacAulay.

Hon. Lawrence MacAulay (Cardigan, Lib.): Thank you very much.

With the AGP, do you expect that to affect future legislation in the U.S., particularly when we have Buy American provisions in the legislation? Is there any legal ground for this?

Also, if there's time, I'd like Ms. Healy, for sure, and everybody to comment on the global policies that are decided, looking at the social policy that we have in this country, and how you think it could affect them.

Dr. Teresa Healy: When we're talking about global economic policies in this context, in terms of trade and this new aspect of the international agreement that is compelling provinces and some federal governments to be disciplined by the requirements of the World Trade Organization, then we are talking about an impact in terms of social relations.

We know that in Canada the government has said there is a very high cost to increased stimulus spending and has put a limit on it, certainly much lower than other OECD countries. Part of the argument is that there's a very high long-term cost that has to be paid, that we have to think very carefully about how much stimulus money should be extended, how much public money should be extended. So I look at this agreement and say, well, why then would we tolerate leakage? Why would we not encourage that money to be spent within the Canadian economy?

The United States, if I'm not mistaken, has given, per capita, seven times more stimulus money to the economic recovery than Canada, and they have plans about how they want to see that money spent. I'd like to shift this discussion relative to your question to look at the implications for the Canadian economy in terms of our public services, in terms of responsibilities of government at a number of different levels to deal with our economic recovery and the kinds of policy options and space that we have for bringing our economy back from crisis.

Mr. Scott Sinclair: Just quickly, there are no enforceable legal safeguards in this agreement that would protect Canada or even insulate it from Buy American preferences in future legislation. The proof of that pudding will be in the eating very soon in the Jobs for Main Street Act, which has Buy American preferences. There are several bills that have been introduced that include Buy American preferences. Canada has an expedited consultation mechanism, but we are basically back to square one, and that will be the situation.

The Chair: Mr. MacAulay, if Mr. Laurin would like to respond, you have a minute and a half left.

Mr. Jean-Michel Laurin: I'd just like to add a comment to your last question, which concerned whether this protects us against future Buy American restrictions.

At the federal level it doesn't. We consulted with some trade lawyers during the negotiations. There are some limits on the President's powers. He cannot give us an exemption for legislation that does not yet exist. That was part of the problem during negotiations. That's why they put in place a mechanism for trying to resolve these issues if they arise again in the future. This does, however, protect us against buy local provisions in those 37 states that have signed on to this WTO agreement.

So the answer is yes and no, but the agreement takes that into account by providing for this special mechanism.

● (1645)

Hon. Lawrence MacAulay: Okay, thank you.

The Chair: Mr. Allison.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you, Mr. Chair.

Once again, thanks to the witnesses for being here.

I have just a quick question; then I'll pass it down to Mr. Cannan.

I understand, Mr. Sinclair, that you're not really happy with the deal Canada got, or you think we could have done better. I guess the question is, do you think European countries and others that trade with the U.S. got a better deal? In your opinion, has there been any other country or province that got a better deal than what we have been able to negotiate?

Mr. Scott Sinclair: No, the Europeans are in the same situation basically as Canadian suppliers. Actually, you might argue that before we signed this deal we were in a slightly better position than the Europeans, who are now, at the WTO, trying to back out of certain of the commitments they made under the GPA towards the United States. Their rationale for that is in particular the impact of the exemptions, and particularly the impact of minority and small business set-asides. As I said, the target at the federal level is 23%; it comes right off the top of all U.S. federal procurement. In many states that can range from.... Say in Illinois, for construction a fair proportion may be defined as between 25% and 40%, which is set aside for small and minority-owned businesses. Seeing the impact of that, the Europeans are trying to back out of their GPA obligations with the United States, or in their own terms they are seeking compensation. They're very aware of these problems, and they're similar.

The Chair: Mr. Cannan.

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

Thank you to our witnesses. It's great to have you back again. Thank you, Mr. Laurin and the Manufacturers Association. Back on January 30, 2009, you said—and I have your words to quote—that the effects of Buy American would be catastrophic, and you brought that issue to the forefront. I know Prime Minister Harper was very attentive to your call, as well as Minister Day, and we appreciate your comments as to how they worked quickly with the Obama administration to get this issue resolved.

As has been said, the road we'll be travelling from recession to recovery is going to be bumpy. There's fragility along the way. We're not just talking about trade; we're talking about people, about jobs, about hope, and about opportunities. I believe this agreement is the best deal as we move forward. People around this table have travelled to Washington. We will continue to work with them; Brad and I are on the Canada-U.S. inter-parliamentary committee. It's vital to Canadians as well as to Americans. There's approximately $1.6 billion worth of trade going across the border daily, involving 7.1 million jobs.

Mr. Laurin, I have a question to you from the association. They talk about protectionism. We have a market of 33 million, and there are approximately 300 million in the U.S. If we put these protectionist measures in, when about two-thirds of our GDP is trade-dependent, what would be the job losses as a result of those protections?

Mr. Jean-Michel Laurin: That's a very good question. It's very hard to come up with a precise number because it's a very complex question. We know the effects would be catastrophic in an environment where our companies have organized their supply chains and their business around the knowledge they have open access to the U.S. market and to a lot of other markets around the world. Let's not forget we still do a fair amount of business even with markets we don't have free trade agreements with. About 25% of our exports go to countries other than the United States.

Other markets are still quite important. In fact, if you're looking at China, if you're looking at Latin American countries, some of them are growing very fast and a lot of Canadian companies are investing in growing these markets.

What would happen if we put more barriers in place? It's a very good question. I'd rather not think about it, to be honest with you. I think Canada has benefited a lot from open access to other markets, especially with the United States. Getting those free trade agreements in place with the U.S. and Mexico has allowed Canadian companies to have access to a much wider, much broader market.

Canada was the only G7 country to create manufacturing jobs during the 1990s. A big reason for that was the fact that we had privileged access to the U.S. market. The low dollar was another reason, but it was by and large due to the better access to the U.S. market.

● (1650)

Mr. Ron Cannan: Thank you very much, Mr. Chair.

[*Translation*]

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

Mr. Claude Guimond: Thank you, Mr. Chair.

Mr. Sinclair, in your opening statement, you said that local content was threatened. Could you explain to me what you meant by local content, and why is it threatened by this agreement?

[*English*]

Mr. Scott Sinclair: Thank you. That's a very good question.

I think this is an important point: the GPA rules, and in fact even the temporary arrangements—and I think this is an important point—ban what they call offsets. Basically, offsets are when governments, procuring, go out to negotiate with suppliers for local benefits, like the 60% local content in the wind energy contracts negotiated by Quebec Hydro. Those contracts are a good example because the successful suppliers were foreign companies, European companies, German companies. I want to make that point quite clearly. You can use procurement as an instrument of economic development policy, and it has been used very successfully in many countries, including Canada, on a non-discriminatory basis. What you lose in these agreements is the ability to even encourage or require local benefits, whatever the nationality of the company.

I'll end on this. When you are making massive public investments through your purchasing in, say, a field like renewable energy, I think most Canadians would feel that's public money and that governments should be looking at the best deal with whoever, whatever company provides the greatest overall benefit to the local or regional economy.

I don't see that as protectionist. If it is protectionist, I think it's a sensible economic policy.

[*Translation*]

Mr. Claude Guimond: In another connection, Mr. Sinclair, a question often comes to my mind regarding the Canada-U.S. agreement on government contracts. You mentioned local content. I am told that this is an agreement between the United States, Canada, the provinces and the territories.

If there is litigation, what happens with regard to the WTO? As far as I know, the provinces have not joined the WTO, they are not signatories?

[*English*]

Mr. Scott Sinclair: There are different forms of litigation under this agreement. The provinces, as far as the WTO GPA commitments are concerned, have agreed to set up what's called a domestic review process under our own domestic law, so every province would have to give suppliers who are covered by this agreement the ability to launch a bid challenge procedure. I don't know exactly how it's going to be done. I assume different provinces will do it in their own way. The federal government does it through the Canadian International Trade Tribunal.

You're quite right, though, that if there is a dispute about the operation of the agreement as a whole, or about things like somebody complaining that you have failed, for example, to put this proper review process in place, that would be a national government to national government issue.

● (1655)

The Chair: Mr. Trost.

Mr. Brad Trost (Saskatoon—Humboldt, CPC): Thank you, Mr. Chair.

I just have a few minor questions here.

From my perspective, and perhaps the witnesses will disagree with me, probably the most significant portion of this agreement is the long-term effect, the agreement with the 37 states that will be permanently a part now of WTO rules for procurement, because stimulus comes and goes, and a large portion of this so-called stimulus package was social welfare transfers that had nothing to do with bridges or roads or anything. It was just what we would call transfer payments, by and large, here in Canada.

So my question is to Mr. Laurin. Thirty-seven states are now locked in with Canada under the WTO rules for procurement. Municipalities often take their guidelines and hints from the States. This is a long-term market opportunity for us as Canadians to get in there on procurement, particularly since these are states like California and New York, Michigan, Texas, and by and large the bigger states, with the exception of Ohio, are in there. What other steps should we recommend as a committee? What other things should we do to help your industries and other related suppliers to take advantage? What else do we need to do to allow your members to take advantage of this new opportunity?

Mr. Jean-Michel Laurin: Thank you. I think it's a very good question, and it's one that we've been giving some thought to lately.

One thing that's really good about the permanent aspect of the deal, which has access to those 37 states, is that it puts Canadian companies on an equal footing with European companies and companies from other countries that have signed on to this WTO agreement. Many of the directives that were issued by the Office of Management and Budget in the U.S. basically said to procurement officers, if you want to spend this recovery money, you need to follow these guidelines. They basically said, you need to have open access to companies from these countries that have signed on to this deal, but they always said, except Canada. I think now at least we've been able to remove that, which is positive. It puts us on an equal footing.

I think for what you plan to do going forward, or what recommendations you could make, it's going to be important that we work with Department of Foreign Affairs and International Trade Minister Van Loan and his staff, to put in place a strategy so that we can, first of all, communicate this agreement with procurement officers in the United States, because a lot of them are not necessarily aware of it. They're not all international trade experts; in fact most of them aren't, so it's going to be important that we communicate the benefits of this agreement to these people. I think there is a strategy that's being put in place with our consulates in the United States and our different trade commissioners.

I think the other part where your recommendations could be helpful is around using the trade commissioner service to get more Canadian companies involved in procurement markets in the United States, and to take advantage of opportunities that are happening, not only with federal spending but also with state-level procurement spending.

Mr. Brad Trost: To summarize, communication of relatively low value, low cost; get out there and help with the advertising.

Mr. Jean-Michel Laurin: Advertising is part of it, but I think it's much more than—

Mr. Brad Trost: I'm using advertising in a bit of a broader sense.

Mr. Jean-Michel Laurin: But it's more about direct communications and making sure these governments understand that there has been a change in this international agreement, and that Canada is now in a special position to procure certain things to the United States.

Mr. Brad Trost: Do I still have time, Mr. Chair?

● (1700)

The Chair: Yes.

Mr. Brad Trost: I'm fairly new to this committee, and one of the other things I found interesting in reading through this agreement was that the threshold limits varied depending on whether they were goods or services. I think they were $600,000, and $8.5 million for construction, and so forth. My understanding, in talking to some of our manufacturers and people in Canada, is that by and large—as was noted with other procurement things—we don't usually enforce thresholds and block American contractors. That was the experience of some of the businesses I have.

I have two questions. Do the Americans, by and large, enforce these thresholds? If they do, what sort of substantive impact do they have on Canadian suppliers, manufacturers, etc.?

Mr. Jean-Michel Laurin: Do Americans enforce thresholds? I know that for projects funded by the recovery act, for example, we have an exemption above a certain threshold. If the value of the contract is below that threshold, they have no choice but to apply by American rules.

Mr. Brad Trost: So it's very strict in that case.

Mr. Jean-Michel Laurin: That is for recovery projects.

For other types of contracts that are awarded by state governments, for example, I would tend to think along those lines. Typically municipalities and local governments—what are known as state governments in the U.S. or provincial ones in Canada—try to find the best deal possible for taxpayers. Unless there is some sort of restriction in place, they often don't even know where the product was made.

We've been talking with municipalities over the last year or so, trying to figure out how much we are buying from American manufacturers here in Canada. We try to say, "Here's what's at stake for American companies in these negotiations". When you talk to municipalities, they usually buy from Canadian sales offices, but they don't really know where the products were actually made. That is the case most of the time, and I assume it is the case most of the time in the U.S. as well.

Mr. Brad Trost: Thank you, Mr. Chair.

The Chair: That has concluded the round, but we'll go around again. If there are questions, we'll keep them short.

Mr. Byrne.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): Thank you, Mr. Chair, and thanks to our witnesses.

Just so we can have confidence in the vigour of your respective positions, Ms. Healy, would it be fair to say your position is that the U.S. actually took a responsible decision by initially enacting a Buy American policy; that it is a responsible course of action to close markets? I base that on the assessment that you say there is value and benefit to Canada in keeping some protectionist behaviour within our own procurement markets. Was it the responsible thing initially for the U.S. to close markets on procurement?

Dr. Teresa Healy: The United States has had that policy since the 1930s.

Hon. Gerry Byrne: So they should continue it.

Dr. Teresa Healy: We saw a certain intensification of this policy happening. What's important about that, as it's important for Canada, is that it's a policy tool. It's the way in which public money can be used to develop economic recovery, and it should be used in Canada. We are very much in support of such a way forward in Canada.

For example, if we could think of any ways in which the public sector—

Hon. Gerry Byrne: Ms. Healy, you have answered the question itself. In fairness, I'm going to have a crack at Mr. Laurin in a second.

So in essence, it was probably a good idea for the U.S. to do that. That's the take-home message I am taking out.

Mr. Laurin, just to get a balance of the consistency of your message here, have you ever come to this committee or to the industry committee and actually advocated that Canada should be a little bit protectionist? For example, in my own home province, members of the Canadian Exporters and Manufacturers have sometimes said—and I think it has been their position—that the offshore market should be a restricted or closed market, that we should be a little bit protectionist.

Are you telling us now that it probably wasn't a good thing, and we'll never do it again as an organization?

Mr. Jean-Michel Laurin: Actually, our message has always been consistent, and it is that we should use procurement policies as a strategic tool to develop our economy. In this specific case, with this deal with the Americans, what we're saying is that most of the time it makes more sense for us to guarantee other countries access to our procurement markets if we can get the same type of access to their markets. There are so many more business opportunities to be found in other markets than there are in Canada. Canada is, by and large, a fairly small economy, if you look at our size on a global scale. What we're saying is that if you want to use procurement strategically, in most cases it makes more sense, if we get reciprocal access to another market, to give another market access to our market in exchange for reciprocal concessions.

In cases where trade rules cannot be enforced effectively, or in cases where you cannot find such a reciprocal agreement.... That was the case made in the paper we released a couple of years ago. There's a very specific sector related to mass transit and highway construction where we haven't had access for years. What we're saying is that it's important, because we're losing business as a result of it. What's our strategy to address it? Obviously, our goal should be to open that market. It should always be to try to open new markets for us. In case we're not able to get those concessions, we should look at what we can do to use procurement as a strategic policy tool here within Canada.

I hope that answers your question.

● (1705)

Hon. Gerry Byrne: Yes, basically, instead of having a blanket policy that the free market is the way to go....

Mr. Jean-Michel Laurin: I think we should look at it—and we think we should look at it—from a business perspective. What's the best deal possible we can get? I think in most cases, if we could use our procurement market strategically, it would be to say that we'll give you access to our procurement market if you give us access to yours. In the case of markets like the U.S. or the European Union, which we're negotiating with right now, those markets are 10 times larger than our own market. As a Canadian company, we have a lot more interest in having access to those markets than privileged access to our own domestic market.

However, in sectors where you don't have free trade and you don't have open markets, then maybe we should look at different policy alternatives and see if there are other options for us out there.

Hon. Gerry Byrne: Thank you, Mr. Chair. I appreciate that.

The Chair: I've got time for a couple of quick ones.

Monsieur Laforest, you can have one quick one, and then we'll have Mr. Keddy to close.

[*Translation*]

Mr. Jean-Yves Laforest: Thank you, Mr. Chair.

Mr. Sinclair, in the third part of the agreement that we are discussing, there is mention of exploratory discussions leading to a more permanent agreement. Given your rather critical analysis of the current agreement, in your opinion, what things would be most important to include or to exclude in the coming agreement?

[*English*]

Mr. Scott Sinclair: Thank you for the question.

I would be very concerned, given the price, the steep price, we paid for very little result in these further negotiations, as I said before. The one thing to note about this agreement with the United States is that it did not require any congressional approval. There was some consultation with Congress. It didn't require state governments to make any new commitments beyond what they had already done in 1994. To gain secure access to some of the markets where, say, Buy American preferences are currently applied, as Monsieur Laurin was saying, such as mass transit or highway construction, which have been excluded for decades, I think Canada would have to pay an extremely high price.

Basically, I think it's totally unrealistic to expect to make significant inroads, particularly in the current context, when Buy American policies have never been more popular.

I just want to say that I actually hear some common ground in the positions here. They are in areas where our major trading partners are clearly using procurement as an important tool for local economic development. Why shouldn't Canada and our provinces be doing that as well? In my case, I think it's an intelligent policy that can contribute to our international competitiveness. Others may believe that it's a way to increase our bargaining leverage in future negotiations.

[*Translation*]

Mr. Jean-Yves Laforest: Thank you very much.

[*English*]

The Chair: Mr. Keddy.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chairman, and thanks to our witnesses.

Given the train of thought that you were just beginning to follow, Mr. Sinclair, then to me it would make sense that the issue I think we're talking about here is reciprocity, and we didn't have reciprocity. We were at a disadvantage, and a very serious disadvantage, vis-à-vis our American competitors. Given what you just said, it would make sense, then, that if we follow that through to fruition, it would actually make our case even stronger, that now that the Americans have opened up procurement, we've opened up our procurement.

By the way, the provinces have been solidly onside here to open up procurement. They didn't come kicking and screaming to the table here. They were leading the way to the table. Then it would make a lot of sense that we have made major headway and we're positioned for the Main Street program, or any other Buy American type of program that comes out, to negotiate an end to those.

We're not going to do it by simply saying we've been hard done by. The Americans don't hear that; they don't pay attention to it. The protectionist measures you've been espousing, quite frankly, frighten me. Worse yet, I think it puts us at loggerheads with Americans, who are tough negotiators. They've always been tough negotiators. We know that.

But if you follow that through and we're able to open up the marketplace, what would you think of the deal then? And I mean open it up in future programs.

● (1710)

Mr. Scott Sinclair: Again, I think there has to be a dose of reality here. We didn't make any significant inroads. The U.S. did not make any significant concessions, despite the major effort and high priority that Canada put on this deal. This is not a new story. There were additional negotiations under the WTO, the government procurement agreement at the sub-federal level, and under NAFTA at the sub-federal level. Canada's position up until now has been that without genuine reciprocity we are not prepared to make these commitments, whether it's to sacrifice our policy flexibility or to give away the negotiating coinage.

At this moment in time, I honestly think it would be more astute for our Canadian consulates in the United States to be turning down the temperature a little bit. Even when Buy American preferences are applied, up to, in many cases, 50% of the content can be foreign. In many cases, Canadians are subcontractors in these deals. Over the decades that these policies have been in place, our companies have done a good job of adjusting to them. I don't think they pose the threat that some people seem to believe to the overall health of Canada-U.S. trade relations. That's certainly President Obama's perspective and I think the perspective of most members of Congress.

Mr. Gerald Keddy: Some $700 billion worth of contracts that Canadian companies couldn't bid on I think poses a threat to Canadian businesses. I really do.

I'll go back to reciprocity, and I want to give one quick example—I know we have a vote coming up very soon.

All of us come from ridings that are dependent upon manufacturing. I represent a very rural riding in Nova Scotia, and our industries, many of them smaller industries, depend on manufacturing. In fact, 87% of the entire riding is manufacturing based. There might be a sawmill, but it's manufacturing dimensional lumber. Fish plants do value-added. The aeronautic sector depends upon international contracts, and some Canadian contracts.

If we somehow think we can depend upon our 33 million people in Canada for our marketplace, when the world is our marketplace, in my part of the world, the 85,000 people who live in South Shore—St. Margaret's would be out of work tomorrow.

We're a part of the world that took advantage of shipbuilding. We do business in many countries around the world, and we're well positioned to do that, in a very modest way in many instances, but without it we would be shut down and we'd all move out west, or to Quebec, or to Ontario, because there'd be no work at home, and then we'd just be competing for jobs there.

● (1715)

The Chair: I'm sorry, Mr. Keddy, we've just run out the clock.

With that, we'll conclude the meeting. We have a vote scheduled very shortly.

I want to again thank our witnesses for coming. I'm sure you'd be welcomed back. Thank you for the time you've put in today.

To the committee, we are now adjourned until Thursday at 3:30.

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