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Chair

Mr. Lee Richardson

Standing Committee on International Trade

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• (1540)

[English]

The Chair (Mr. Lee Richardson (Calgary Centre, CPC)): Welcome to the 38th meeting of the Standing Committee on International Trade, as we continue our order of reference regarding an act to implement a free trade agreement between Canada and the Republic of Panama.

We're pleased today to welcome as witnesses, from the Embassy of the Republic of Panama, His Excellency Francisco Carlo Escobar Pedreschi. Your Excellency, it's a pleasure to have you here. Thank you very much for coming.

Also with us today, from the Government of Panama, is His Excellency Francisco Alvarez de Soto, the chief trade negotiator and deputy minister of international trade negotiations with the ministry of trade and industry.

Also here today is Mr. Rudy Cedeño, who is an adviser to the deputy minister.

This will be very useful and informal. Our normal practice is to begin with an opening statement from our witnesses of up to 10 minutes to give a brief background of your involvement and thoughts on the issue. Then we will proceed with the committee members asking questions.

With that very brief introduction, again, we are delighted to have you here. Thank you for coming.

I take it His Excellency is going to begin. I'll leave it to you, Mr. Ambassador.

H.E. Francisco Carlo Escobar Pedreschi (Ambassador Extraordinary and Plenipotentiary of Panama to Canada, Embassy of the Republic of Panama): Yes. I will start with a short statement before I introduce our deputy minister of international trade, Alvarez de Soto.

Members of Parliament, Mr. Chair of the Standing Committee on International Trade, everybody, good afternoon.

It is a distinct honour to present before you information that will be useful in completing the approval process of the free trade agreement between Panama and Canada.

As some of you know, Canada and Panama will have 50 years of diplomatic relations. Just this year, Canada has taken advantage of Panama's geographical position to open important regional departments, such as regional security departments; regional logistics

desks, to help the area during natural disasters; and an EDC regional office that will serve Central America and the Caribbean.

Our geographical position is important for these types of ventures, but Panama has more to offer, especially as a commercial partner, once the free trade agreement is finalized.

Panama has a population of about 3.4 million people and one of the largest GDPs per capita in the region, with \$7,133 U.S. Our country, as well as Canada, took the necessary precautions to avoid getting hit by the world crisis that most countries encountered. As we speak, proof of this is that Panama had an economic growth of 7.1% in 2008, 7.4% in 2009, and an estimated 6.7% at the end of 2010.

Before I give the floor to our deputy minister, I would like to make a few remarks of a political nature.

Panama is Canada's main trade and economic partner in the Central American region, and most likely in the Caribbean region as well. As such, Panama has come to recognize Canada, in a positive way, to be an undisputed leader in matters of trade in this western hemisphere.

Canada, even in the most difficult recent international financial crisis, when even the most industrialized nations of the world allowed for protectionist ideas to influence their trade policy, pursued a dynamic and aggressive trade negotiation strategy throughout the continent.

The results are evident. Canada is partnering with most nations and thus allowing for preferential market access to be part of its economic reality in the continent. This is of great value.

In this regard, Panama believes that it is equally important that Canada does not forget the positive response it has received from each and every one of those countries that call themselves trade partners with Canada. This is the sort of leadership we refer to.

Our government has put emphasis on this FTA and has assigned our deputy minister, Alvarez de Soto, to present the benefits of this agreement to both nations. Please let me introduce to you, our deputy minister of international trade, His Excellency Francisco Alvarez de Soto.

• (1545)

H.E. Francisco Alvarez de Soto (Ambassador Chief Trade Negotiator, Deputy Minister, International Trade Negotiations, Ministry of Trade and Industry, Government of Panama): Thank you, Mr. Chairman and ladies and gentlemen, for this opportunity.

As Canada's main trade and economic partner in the Central American region, Panama considers this agreement as an important part of our trade integration strategy to strengthen commercial ties and deepen trade all over the world.

We already have trade agreements with Chile, Singapore, Taipei, China, and the Central American countries. We have concluded agreements with the United States and the European Union, and we are advancing trade negotiations with Colombia, Peru, and the 11 countries of the Latin American Pacific coastal area known as ARCO.

As a nation with over a century of independent history, born of unfair trade, our ambitions when it comes to trading with the world don't stop here. We will be working this coming year and in subsequent ones to partner with the EFTA countries, CARICOM, GCC Korea, and APEC countries. Why? Because Panama is the trade hub of the Americas and happens to be the main trade partner in Central America and the Caribbean region for most countries.

On the economic front, Panama has been posting relatively strong economic growth numbers. With a solid growth rate even in difficult times, all of the country's political and economic signs are favourable. The Panama Canal enlargement and ambitious infrastructure investment programs will support strong economic growth in coming years. In fact, Panama today continues to have one of the better performing economies in Latin America. It is not our government figures backing this statement but those of international economic and business organizations. Panama's economy is expected to grow at an average rate of 5% between 2010 and 2015, as opposed to an average of 8% between 2004 and 2009.

The four major sectors of our economy—logistics and transportation, financial services, tourism, and construction—continue to experience solid growth. Panama continues to be a major destination for foreign direct investment, attracting more FDI as a proportion to GDP than most countries in the hemisphere.

Panama's solid macroeconomic framework has served to gain it entrance into an exclusive Latin American club, with an investment-grade rating by three of the most important agencies: Fitch Ratings, Standard & Poor's, and Moody's. Therefore, Panama will continue to improve on its recognized reputation as a financial and logistical centre worldwide.

The macroeconomic and fiscal achievements of Panama to date are not those of a country with a politically weak system where basic labour, human, and individual rights are disrespected. Nor is Panama a country with a poor economic system, relying on unfair tax practices to deviate investment from industrialized economies.

Panama is a leader in cross-border trade. In a recent ranking of border trade from CEPAL, Panama occupied the second position among Latin America's most competitive countries. At the same time, the World Bank's logistics performance index, which measures the ability of countries to connect to global markets, rates Panama high in comparison with the generally poor logistics and infrastructure in the hemisphere.

On the trade front, the Panamanian government believes there is no more powerful tool to ensure the prosperity of our societies than encouraging free and open trade among countries large and small.

Freedom, opportunity, prosperity, civil society, and democracy builds up the solid basis for the development of our countries.

In regard to this treaty, Panama believes it will benefit both countries, because of our complementary economies. When it comes into force, it will contribute to lower prices and improve product choices for consumers. It will enhance market access for both Canadian and Panamanian service providers in areas such as finance, construction services, energy, mining, and the environment. It will ensure non-discriminatory treatment in cross-border services, establishing specific provisions for trade services as well as trade service suppliers.

Panama believes that the FDA ensures that no non-agricultural products are excluded from tariff elimination and that up to 90% of the industrial goods imported from Canada will be entitled to access under duty free treatment. This represents important concessions for Canada. The agreement will also improve market access for Canadian business by immediately eliminating tariffs on key Canadian industrial exports, representing new opportunities for Canadian workers and manufacturers.

The free trade agreement will also improve market access opportunities for Canadian farmers and food processors by eliminating a range of tariffs on key agriculture exports.

• (1550)

Panama maintains an average most favoured nation applied tariff on agriculture products of 13.4%, with tariffs reaching peaks as high as 260% on some products. The agreement includes zero for zero immediate duty-free access for key Canada sectors, including agricultural and agrifood products. Please bear in mind that Panama has granted Canada up to 83% of immediate market access for Canada's agricultural exports. This outcome reflects a better outcome if we compare these figures with those offered to the U.S.A., at 65%, in the TPA.

From the perspective of Panama, key Panamanian agricultural products—for example, all tropical products, such as bananas, fresh melons, watermelons, pineapples, papayas, coffee, edible fruits, and nuts—exported to Canada have been granted immediate access as well. Canada's total imports of these products amounted to \$660 million U.S. For a small country such as Panama, this figure represents more than 50% of total exports.

The FTA would also grant duty-free status for 100% of Panama's non-agricultural products, including fish and seafood products.

As we stated before, Panama has a stable economy based on maritime and service-related industries developed around the canal, which accounts for 14% of our GDP. Panama benefits from the largest and fastest growing traffic volume generated along the U.S. east coast to Asia trade route. An expanded canal will strengthen Panama's role in the international trading system and could create new opportunities for Canadian businesses. Activities related to the Panama Canal expansion are expected to create further favourable openings for Canadian investors, particularly in the areas of infrastructure and construction.

Furthermore, the FTA with Canada has received no objection from civil society in Panama and has wide support from the business community. In Panama, the general perception of the public and business community about the FTA is highly positive. The service sector is quite enthusiastic about the trade pact. This agreement is not seen as a threat to the industrial and agricultural sector, and it is understood that both countries can mutually benefit because of our complementary economies.

All of the aforementioned reasons point to the opportunity to secure the quick implementation of the free trade agreement that Canada has negotiated with Panama and to approve this bill currently before this honourable Parliament. This instrument will allow the coming into force of this trade deal and two important side agreements, one that is intended to protect and enhance workers' rights and labour-related matters, and a second that will strengthen bilateral cooperation on environmental matters.

The proposed Canada-Panama free trade agreement meets the highest global standards. Panama has maintained higher labour standards in comparison to those of the rest of the countries in Central America, reaffirming our obligations as a member of the International Labour Organization, with the reinforcement of labour regulations related to fundamental rights, plus acceptable working conditions in terms of minimum wages, hours of work, and occupational safety and health.

The labour agreement signed with Panama represents a comprehensive agreement. Canada, in fact, has achieved labour protection provisions that go beyond those included in the recent FTA between the European Union and Panama along with the rest of Central America. The dispute resolution mechanism embodied in the Canada-Panama labour side agreement will, in a very real sense, help to improve conditions for Panamanian workers.

This bill you have under your consideration will give Canada avenues of engagement that it has never had before to promote corporate social responsibility, enhanced environmental protection, and improved rights of workers. In addition to its very strong provisions of labour standards, the corporate social responsibility aspects of this agreement represent the first time Panama has included such commitments in a trade deal. These provisions are included in both the investment and environmental chapters.

Panama's National Assembly has already approved the treaty. Now it's time for Canada to do the same to deepen commercial relations with Panama and other promising markets.

● (1555)

Prompt passage of this bill would help Canadian workers and businesses on all sides in both stimulating economic recovery in the short term and building sustainable competitive advantage.

Implementing the free trade agreement would also benefit Panama's economy and society and would signal Canada's strong support for countries and governments committed to democracy, the rule of law, human rights, peace, security, and sustainable development.

This is a bill that is good for Canadians, good for Panamanians, and sets an example for the world on trade policy. We just need to get on with it.

We thank you very much for the opportunity given to the Panamanian government on this occasion.

The Chair: Thank you.

I'm going to begin the questioning rounds with Monsieur Laforest. I'll let you take the first round of questions, and then we'll move on to Ms. Hall Findlay.

Go ahead for seven minutes.

[*Translation*]

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

Thank you for coming. I would first like to tell you that the Bloc Québécois expressed a number of reservations about the signing of this agreement, especially because—according to us, the OECD and a lot of others too—Panama is considered to be home for tax havens and, as a result, it allows for tax evasion.

To this end, we questioned the stakeholders who came to meet with us, the officials or those who negotiated the agreement. We were told that the Minister of International Trade sent a letter to his Panamanian counterpart in order to sign a tax information exchange agreement. The answer we got was that negotiations reached a dead end. There was no agreement signed because the two sides did not want the same thing. Panama wanted to sign one form of agreement and Canada another. So there was no answer.

Could you please share your thoughts on this?

[*English*]

H.E. Francisco Alvarez de Soto: Yes, thank you very much.

Allow me to make a reference to this issue of the pejorative classification of Panama as a tax haven. Panama has explained to the OECD and other trade partners and to economic partners around the world that the reality of our tax system—and there is ample evidence of this—does not correspond with a tax haven.

That's something my government has made very clear, and I think we have acted on it, particularly after His Excellency Ricardo Martinelli took office as President of the Republic back in July of 2009.

In light of that, in the last 18 months, the Government of Panama has advanced a tax policy that has no precedent and actually is far more aggressive than any other OECD policy or the policies of other countries that are participating in the OECD tax cooperation project. We have completed more than 14 negotiations of non-double taxation agreements following the OECD standards, which include the model clause 26 for the exchange of tax information. Again, that follows OECD standards.

These 14 non-double taxation agreements, which include cooperation on matters of the exchange of information, have been completed with OECD members just like Canada. Panama decided, as a national policy, to engage in cooperation on tax matters following one of the two alternatives that have been given to anyone by the OECD in this project.

The OECD has clearly stated to those countries that have been asked to cooperate on these matters that they can follow one of two ways. One is to follow a model of a tax information exchange agreement. The other is to engage in the negotiation of non-double taxation agreements with a clause to facilitate the exchange of information. It's not an obligation to follow just one. You have the alternative of taking either one or the other.

Panama decided, as a sovereign country, that it was in the best interests of its economy to engage in cooperation following the alternative of non-double taxation agreements. We are very pleased and very happy that we have actually gone beyond the request of the OECD, which was to have completed at least 12 of these instruments with OECD members. We are now in the 15th negotiation. We have already signed nine, and before our assembly, currently, there are four, if I'm not mistaken.

In the case of Canada, from the very first day of our administration, Panama offered to Canada to engage in the negotiation of a non-double taxation agreement, just as it would with any other OECD country, because that is, again, the policy our country has decided to follow. We still maintain that offer. We are very eager and very much committed to that offer, which has not changed one bit from the very first day.

In that sense, particularly having this free trade agreement and in the interests of the Canadian investments that are already in Panama, we strongly believe that a non-double taxation agreement is actually the best complement to our free trade agreement.

•(1600)

[Translation]

Mr. Jean-Yves Laforest: I will turn the floor over to my colleague Ms. Deschamps, who would also like to ask you a few questions.

Thank you.

Ms. Johanne Deschamps (Laurentides—Labelle, BQ): Thank you, Mr. Chair.

Thank you and welcome to a committee that I am not familiar with. But I still think that I will be able to ask you a few questions.

Mr. de Soto, I would like to go back to your testimony. You said that the agreement sets out commitments under which the Canadian and Panamanian governments will respect workers and promote the

social responsibility of foreign companies that set up shop in your country.

Yet I have not heard anything about what happens when there is a human rights violation or when a company is responsible for environmental disasters. Does the agreement include penalties?

[English]

H.E. Francisco Alvarez de Soto: Thank you very much.

Indeed, this agreement with Canada has actually become a model, particularly in the subsequent negotiations that we are advancing when it comes to labour standards and when it comes to the environment, for example, and of course the issue of corporate social responsibility.

In the matter of violations of human rights, where there are corporations that actually, for example, do not honour labour standards or actually breach environmental laws, the two side agreements have actually a dispute resolution system that would allow for these matters to be dealt with.

On top of that, I would also like to stress the fact that in Panama, if you have an opportunity to look at it, our environmental laws are very strict. Actually, they would definitely be applicable on any occasion of any Canadian investment taking place in the country. So, in a sense, talking about, for example, the environment, you would have the vehicle of the agreement to allow for, again, these potential violations being dealt with, and also the environmental laws. If there is a breach of those standards, there would be sanctions. You can rest assured there would be sanctions.

[Translation]

The Vice-Chair (Mr. Jean-Yves Laforest): I will have to ask you to wrap up.

Unfortunately, your time is up. We have already gone over the limit. So thank you.

We will now go to Ms. Hall Findlay.

I am sorry, Ms. Deschamps. You understand. It is a colleague who has to do it, but we only have one hour.

Go ahead, Ms. Hall Findlay.

[English]

Ms. Martha Hall Findlay (Willowdale, Lib.): *Merci, monsieur le président.*

Ambassador, gentlemen, thank you very much for being here today. As I said informally earlier, we know everyone's very busy, but we really appreciate your being here with us.

I just want to say that as the international trade critic for the official opposition, this is one of the rare occasions when we are in fact in full agreement with the government in pursuing trade with a number of different countries. We are very supportive of the negotiations and the fact that we're at this point in the discussions with Panama. As you well know, there are a number of concerns, and this is the opportunity for a number of those concerns to be raised.

I have to say, I was actually going to ask you a question about the concerns that have been raised about the so-called tax haven concern. I won't ask again, because, Mr. de Soto, you answered that extremely well.

• (1605)

H.E. Francisco Alvarez de Soto: Thank you.

Ms. Martha Hall Findlay: I would appreciate it, if it's possible, if you can forward to the committee information of the other countries with which you have in fact.... You said you've signed nine, and four or five are being done. If you could just add that information and address it to the clerk, I think that would be very helpful to us as well.

I would like to shift the focus, then, to another question I wanted to ask, and that was on the opportunities for those Canadian enterprises engaged in financial services. We know that in terms of the expansion of the canal, there are infrastructure opportunities. We know that for the agricultural sector, there are some tremendous opportunities, and we very firmly believe in the mutual benefit of this agreement for both countries, and increased economic prosperity, all of which is why we're supportive of it.

In terms of financial services, Panama is exhibiting and showing real success, and growing success, as something of a financial services hub in Central America and for the Americas. Could anyone just elaborate on what you see are the opportunities, given a free trade agreement with Canada, and what that might mean for Canadians engaged in that sector?

H.E. Francisco Alvarez de Soto: Thank you for the question, Madam.

Let me address that directly.

Panama is already becoming, essentially, we believe, a very serious, committed financial centre for the region. We want to consider ourselves a financial centre for the Americas. This is why we are engaging not only in policies of cooperation, for example, within the framework of the OECD, as we have nothing to hide, but it's also why we are very much engaged in other multilateral initiatives in terms of ensuring that there's a real, solid, dynamic financial centre.

We need a financial centre, because we are attracting a significant amount of foreign direct investment because of the reality of Panama being a logistical hub for trade and a logistical hub for services in the hemisphere.

As a matter of fact, we have to point out that Scotiabank, for example, has grown tremendously in terms of the local banking business. Again, this is a market of 3.5 million people. When thinking of Panama as a trade partner, you have to think of Panama as a multiplier. And that's precisely what we think Scotiabank has right. The strategy of this Canadian bank is to position itself in Panama to finance a lot of the trade going on in the region from Panama, through Panama. That's precisely where the business is.

That would be an example for other Canadian banks. They would have the certainty that there is strong financial legislation that would guarantee transparency and proper management of international financial transactions. They would have the certainty that they would

be positioning themselves as financial institutions in a location that is actually looking up to the highest standards of business in the world. There would be an opportunity for that.

In terms of your comment on how much we have advanced in terms of tax cooperation, I can quickly list the treaties. We have signed with Qatar, Barbados, Belgium, France, Italy, Spain, the Netherlands, Luxembourg, Mexico, Portugal, Singapore, and the Republic of Korea.

Ms. Martha Hall Findlay: Thank you very much.

I would like to focus a little bit on the end of your testimony. You spoke about the value of exchange and the opportunities for exchange. There are many of us who believe very strongly that trade is an opportunity to do trade, of course, in goods and services, but that these arrangements will give an opportunity for a much greater level of exchange of people and ideas. In terms of questions from other colleagues about labour, about tax issues, and about environmental issues, many of us believe that the more trade we have in both goods and services, the more exchange we will have of people and ideas. All of that will enhance labour conditions and environmental conditions.

I'm interested particularly in education, post-secondary education, as well. Can you speak, in the limited time we have left, on opportunities students and younger people in Panama and Canada may have for exchanges? Is that something on the radar for you or something you're interested in and see some opportunities for?

• (1610)

H.E. Francisco Alvarez de Soto: Thank you very much again.

Indeed, we firmly believe that a policy of trade, of course, is one that helps strengthen all other aspects of government and society. That's precisely why our administration is so committed to having Panama look at the world and at other trade partners around the world, like Canada.

In terms of education, of course it has an impact. This government is particularly interested in engaging with partners around the world to help us improve the level of education of our youth. Again, Panama, as a hub, has to look at things like technology, at things like logistical trade efficiency. We are not a country that would engage in trade by looking at cheap labour or by just wiping out our rainforest and the biodiversity that we have. We have the highest salaries in the region; we are actually an expensive country when it comes to that. So it is in our interest that other trade partners engage in faithful trade in this matter.

For this opportunity, Panama is investing in education, with projects like City of Knowledge. City of Knowledge is a very beautiful project, our international project. It is one of the largest former U.S. bases that has been turned into a large area where we have, to date, had very prominent universities from all over the world giving master's degrees, conducting research, and engaging with UN agencies—which have actually looked at Panama to locate their regional offices. So Panama is also becoming this little Geneva, if you wish, of Latin America, because of this concept of higher education and higher standards for cooperation. That's where we think there is great opportunity for Canadian universities and research institutes.

If you look at the trend, you would be surprised that there are a lot of young Panamanian professionals who are actually considering Canada, rather than the U.S., when it comes to looking at higher education, master's degrees, Ph.D.s, and so on. This is something that our ministry of education and our secretariat for technology and science are very much ready for and very interested in taking opportunities offered to approach these countries and promote that. We have done that with other countries as well, like Singapore, for example.

[Translation]

The Vice-Chair (Mr. Jean-Yves Laforest): Thank you, Mr. de Soto.

Thank you very much, Ms. Hall Findlay. It is now Mr. Julian's turn, from the NDP.

[English]

Mr. Peter Julian (Burnaby—New Westminster, NDP): *Merci beaucoup, monsieur le président.*

Thank you very much for being here today. We appreciate your coming forward for this testimony. I visited Panama with the trade committee a few years ago. It's a stunningly beautiful country. I was particularly impressed with the labour activists there. They understand that the way to bring balance to economic development is through having a proper balance between business and labour, and that's the first question I would like to ask you as follow-up. We had what has been described as a very mean-spirited reform brought forward by the government in the spring. I think it was a mistake. It certainly left a black eye for Panama and the world to see.

Fortunately, the government has moved back from that, but we had testimony from the Canadian Labour Congress last week at this committee about the labour component of the agreement, though they haven't yet come for questions. They gave testimony that indicated the Canada-Panama agreement doesn't include specific protection for the right to organize and the right to strike. They also raised concerns around the free trade zones, the fact that the free trade zones are essentially exempt from national labour laws and exempt from international labour provisions. Finally, they raised concerns about Panama offering political asylum to the former head of the secret service in Colombia, Maria del Pilar Hurtado. As you know, she has been accused of a number of things, including handing over lists of trade union activists in Colombia to the paramilitary, and we certainly know about the absence of trade union rights in Colombia.

So those concerns have been raised by the labour movement, and I'd like you to respond to each of those points, if you may.

Then my second set of questions deals with the issue that was raised by Mr. Laforest, the whole question of fiscal status in Panama. Canada has asked for a tax information exchange agreement. One was signed with the Obama administration. I'm just going to quote what Global Trade Watch says in response to the signing of that agreement:

The tax information exchange agreement (TIEA) that the Obama administration signed with Panama today does not require Panama to automatically exchange information with U.S. authorities about tax dodgers, money launderers and drug traffickers. Therefore, Panama is giving itself until the end of 2011 to make a series of domestic legal changes to facilitate the non-automatic information sharing envisioned by the new TIEA - which will be made only in response to specific, case-by-case requests after U.S. authorities have already obtained and provided to Panama a great deal of information about potential wrongdoers.

In short, they're criticizing the structure of the agreement because they're saying it's not an automatic information exchange. We've also raised concerns about Canada not having a robust tax information exchange agreement with Panama.

Why the delay on this, and why not have automatic information sharing? That is really the concern people have about tax shelters in Panama and the links to organized crime.

• (1615)

H.E. Francisco Alvarez de Soto: Thank you very much for the opportunity to clarify these issues and these biased opinions of international organizations once again.

Let me start with the labour aspects of your questions. I will start with the reference to these export processing zones. Respectfully, I do not agree with those who have stated that these special zones are not subject to the Panamanian labour code, and I would like to engage with any one of them about this matter. As a licensed lawyer, I can assure you that the Panamanian labour code applies throughout the republic, and also there are many references to labour rights in the Constitution. So it is impossible that the export processing zones would be excluded from application of the labour code.

That being said, there have been specific provisions regarding how differences that could arise in labour relations will be dealt with. When you do a comparative analysis of labour laws in countries that have export processing zones, let me remind you there are always provisions for specific matters in terms of how to deal with labour differences, for example. So Panama is not deviating from international standards in these matters.

Last week, the Council of Ministers passed an amendment to this particular law 25 on export processing zones, which strengthens the references to the labour code being applicable to the entire labour environment in extra processing zones.

Mr. Peter Julian: Could you provide that to the committee, please?

H.E. Francisco Alvarez de Soto: With pleasure. No problem. I could provide the law that has been passed by the Council of Ministers. It would go to the National Assembly.

As a matter of fact, let me point out that it has actually been consulted on with everyone. In particular, the companies have actually said that they have no problem with strengthening the labour aspects of this particular law.

In terms of the references to Law 30, which is, I think, the one you're referring to, which was passed early in the spring and was subject to a national consultation, let me reassure you that all the amendments that have happened since then actually revoked Law 30 and implemented a series of laws to deal with all the provisions that were contemplated in this original law. It had to do with environment, labour, civil aviation, commercial aviation, and other provisions, such as national security and so on. They have been agreed to by the national consensus board that was created, which included many actors of civil society, including labour unions, environmental organizations, and other representatives of civil society. They actually agreed with every one of them before they were sent to the Council of Ministers and before they were sent to the National Assembly. That was part of the national agreement on how to correct Law 30.

That demonstrates that our government and our society believe in engagement and open discussion of any differences, including labour, the environment, and other aspects of life.

Your reference to the political asylum of the former Colombian official is something that has been dealt with by our foreign ministry in accordance with international law. The Panamanian government is very respectful of the internal affairs of Columbia. I will not engage in arguing about whatever accusations this lady is facing in Columbia. I will only say that in this particular case, Panama is very respectful of international law, as it is part of our Constitution. That was the only objective when acting in regard to this case.

With regard to the fiscal issue, let me be very clear. We have been extremely consistent with Canada—

• (1620)

[Translation]

The Vice-Chair (Mr. Jean-Yves Laforest): Could you please go a little faster, Mr. de Soto?

[English]

H.E. Francisco Alvarez de Soto: Yes, I'm trying. It's just that there are a lot of questions, and I would like to address them, if I may.

Panama has been very consistent with Canada in actually engaging fully in cooperation. The strength or the robustness of any sort of cooperation can be perfectly dealt with in a non-double taxation agreement. Panama will not sign tax information exchange agreements because they do not serve the interests of the Panamanian economy. The non-double taxation agreements—again, I insist on this—following OECD standards and following OECD suggestions, are what Panama believes serve its economic interests as a sovereign nation. We believe they are very valid, very efficient instruments when it comes to assuring the exchange of information.

Now, as to the automaticity of this exchange of information, Mr. Julian, let me tell you that the automatic exchange of information is something that actually has not even been demanded specifically when you talk about the OECD discussions and the OECD global

forum on taxation. What the forum is demanding from participants—OECD members and non-OECD members—is that they have a robust structure for assuring that when it is applicable, there are sufficient channels and there is sufficient legislation and information to address the requests that any party might need in pursuing the application of their tax legislation.

I don't understand why there is this insistence on talking about the TIEA with the United States not being robust, because there is not a specific element. In reality, when you look at many, many dozens of TIEAs around the world, the automatic exchange of information is actually not necessarily an element of any of these agreements.

To conclude, in the case of Canada, my government has reassured Minister Van Loan and your tax authorities that Panama is ready to engage in the negotiation of the non-double taxation agreement, with all the provisions for the exchange of information, immediately. That's the offer that was posted in July 2009, and that's the one that remains to date.

[Translation]

The Vice-Chair (Mr. Jean-Yves Laforest): Thank you, Mr. Julian.

It is now the Conservative Party's turn. Mr. Allison, the floor is yours.

[English]

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

I actually have some trade questions for you.

We'll thank Mr. Julian, although his party represents only about 12% of the seats in the House of Commons, so he's certainly not in the majority in terms of his thinking.

Thank you for coming. I know it's a cold part of the world to be coming to at this point in the year.

I have only two questions, and then I'm going to pass it over to my colleague, the Parliamentary Secretary for Trade.

The first question revolves around potential future contracts for the canal. I realize that probably most contracts are out, so I just want to know what the thinking is in terms of contracts that may be available and may still be left for Canadian companies or those that may be participating. And then perhaps I could get your thoughts on why it's important that we ratify this deal before the U.S. does, and your perception of ongoing opportunities for Canadian companies to be ahead of the ratification for the U.S. Obviously, they're there. They're at the table. You guys have worked on an agreement. They haven't ratified it in Congress.

So perhaps I could get your thoughts on that, and then I'll turn it over to my colleague, Mr. Keddy.

• (1625)

H.E. Francisco Alvarez de Soto: Thank you very much. I'll try to be extremely brief.

Mr. Dean Allison: No, not now. That was before.

H.E. Francisco Alvarez de Soto: *Merci.*

In terms of the potential contracts for the canal, indeed, as you know, this is an extremely transparent international process that is taking place. I want to report that contrary to what the skeptics are saying, the project is running on time and under budget. That's something we are very proud of.

For major contracts, of course, pieces of the project have already been assigned to international consortiums, as I'm sure you know. However, let's keep in mind that the multiplying effect of this \$6 billion—more or less—project has to do with the subcontracting. Subcontracting is now happening in all stages, of course. Some are more advanced; some will take place, and so on. So the opportunity for Canadian companies is there. Again, these contracts are happening as we speak.

In addition to that, let's remember something. It's not only the project itself, but the regular business of the Panama Canal Authority, the ongoing normal operation of the canal, provides for great opportunities for Canadian companies, particularly taking into account that within the agreement, in the government procurement chapter in our negotiation, we actually included the canal as an offer to Canada. This is something, I want to say, that we do not grant to all our trade partners. We are very specific as to what trade partners we make the offer to and include in the list to the Panama Canal Authority. So that's also an opportunity, particularly with the reassurance not only of the national legislation that guarantees non-discrimination and full transparency—you can actually look at the contracts on the web—but also of the provisions of the agreement that guarantee everything will be done on a non-discriminatory basis.

In terms of the importance of ratifying this agreement before the Panama-U.S. TPA is ratified by Congress, I would say it is evident. If you talk to congresspeople and senators in Washington, actually from both sides, many say that Canadians will go first. So on the other side of your border with the U.S., they are actually realizing the same thing, of course, thinking of Panama as a hub for trade. Again, don't think of a 3.5 million market, but rather of a regional market. The sooner it is, the better. And actually, Canada, as a large G-8 economy, would be the first. Remember that we have the agreement with the U.S., our main historic trading partner, but also with the European Union.

Let me give you a figure on the European Union. Panama buys 57% of all European Union imports that the region buys. Panama's government procurement project for the next four years equals the sum of all government procurement of the other five Central American countries. We're talking about \$15 billion worth of government procurement projects. The entire region sums up to that figure. So again, the sooner it is, the better.

The European Union agreement will take time. It won't be ready before 2012. And we are on time. They are being very expeditious. With the U.S., we'll see. Nobody knows. We are very pleased with the latest news regarding the agreement between Korea and the United States. We would hope that this would call for sort of a trade initiative on the part of the White House. The minister and I were in D.C. just two weeks ago talking to the Republican leadership, reassuring them that Panama has actually been there and that we remain committed to the agreement. But again, we're not stopping.

We made it very clear. We will not stop in our trade policy, and that includes ratification and implementation of this Canadian agreement.

• (1630)

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chairman.

The Chair: Why don't you take an extra couple of minutes here? I think we're not going to have a chance for another round on your side. Take four or five now, and we'll finish up with Madame Folco. I'm sorry we're not going to have any more time than that.

Mr. Gerald Keddy: Thank you for that clarification, Mr. Chairman.

Welcome, Ambassador. It's a real pleasure to have you at committee. Thank you for bringing your chief trade negotiator with you today. He's given a very impressive discourse here, so much so that even when we went over time with the NDP, I wasn't about to interject.

There are a couple of questions on this. In my part of the world in Nova Scotia, we've been trade partners with Panama for over a century—from the schooner trade that went into Panama and the rest of Central America, to the Bank of Nova Scotia, which has been a long-time banking presence in Panama.

What you said about the non-double taxation agreement, I appreciate. At the same time, we're still looking forward to a tax information exchange agreement. That is still something that Canada is interested in and would expect to be able to put to bed.

Your information on procurement, \$15 billion over five years, I think is enlightening to most of the committee. We expected a lot to come out of the doubling of the Panama Canal.

You said on budget and on time. Did you say the timeframe was the end of 2014?

H.E. Francisco Alvarez de Soto: I said “under budget”.

Mr. Gerald Keddy: Under budget? Pardon me. Even better.

At that time, 2014, we're expecting about 5% of the entire trade on the planet to be going through the Panama Canal. Do you know if that's going to be a higher figure, and what about the value-added potential in the Colon free zone, the remanufacturing? What do you expect that to be worth?

H.E. Francisco Alvarez de Soto: Indeed, the figures we are looking at indicate that once the enlargement of the canal is complete, 6% to 8% of world trade will be coming through the canal.

Let me also make a clarification on how trade will be evolving because of the Panama Canal. You will see an increase in world trade going through the canal. In addition, much of this trade will actually be reoriented and redirected, because of the facilities that are being built as we speak around the enlargement of the canal.

Please do not forget that port facilities in Panama have more than tripled in the last five years. For example, the containerized handling capacity of our ports equals that of the largest ports in the world. That makes Panama an even more attractive place for trade with the Americas and with the region. That is something we are very pleased with. For example, when you look at Brazil's foreign trade strategy, the Panama Canal is an element of it. In that regard, trade is going to change because of the enlargement.

Government procurement remains important. Our government is able to engage in infrastructure investment because we believe that by 2014, in light of international efforts to enlarge the canal, we need to be ready with this international trading centre, which is the canal.

We are building a new international airport. We are tripling the size of Tocumen International Airport, which services the Americas both in passengers and cargo. We are increasing our ports, our roads, our railway capacity. In other words, there is great potential there.

I want to refer to the non-double taxation and the aspiration of Canada to have the TIEA. We recognize this aspiration on the part of Canada, but again, the Panamanian government has been extremely clear and consistent with the offer of the non-double taxation agreement, particularly in view of the free trade agreement.

• (1635)

The Chair: Thank you.

I'm going to wrap up now and ask Madame Folco...

Nice to have you with us again.

Ms. Raymonde Folco (Laval—Les Îles, Lib.): Thank you. I have to say, it's one of my favourite committees.

The Chair: Mine too.

We're going to ask Madame Folco to be very brief, and I'd ask that the answer be equally as brief. We have other witnesses waiting. I appreciate your patience.

Ms. Raymonde Folco: It's the story of my life. When it gets to me, it always has to be brief.

I know I'm late in welcoming you to Canada, Deputy Minister. It's a cold time to be here. In my hometown of Montreal, there's a major snowstorm, so I hope on the way home you're not going through Montreal.

You mentioned the City of Knowledge. As it happens, I will be going there in two weeks' time on another objective I'm pursuing apart from free trade. I'm certainly looking forward to travelling around Panama.

The question I have to ask you stems from some of the remarks you've made.

You've talked at length about agriculture. Of course, that makes sense, given the kinds of agricultural goods that Panama exports all over the world, and particularly to North America. You've talked very little about industrial goods. I wondered whether you might want to talk about the kinds of industrial goods...the kind of market that would open to Canadian industry in terms of this free trade agreement.

My question is quite short.

H.E. Francisco Alvarez de Soto: I take note that you will be in Panama in the next two weeks, particularly looking at the City of Knowledge. We are very pleased with that.

We've talked about agricultural goods at length because that's the main export that Panama has. Please bear in mind that 75% of our GDP is services and 6% is agriculture. When it comes to agricultural exports, Panama is one of those countries that you can map out really easily: it's tropical fruits and a little less....

As for industrial goods, this agreement will definitely improve market access for things coming from the Canadian industry, such as iron and steel products, aircraft and parts, plastics and wood products, including plywood, motor vehicles, electrical machinery, fish and seafood products, glass and glassware, construction equipment, information technology products, and medical and scientific equipment.

Again, as a market of 3.5 million, it sounds very small, but when you think of these major projects that demand a lot of industrial goods, it becomes a much larger market. When you think of, for example, medical equipment, you think of medical tourism. We are building new and very modern hospitals. John Hopkins, for example, has an extension in Panama. It's a state-of-the-art private hospital, and it's actually importing a lot of medical equipment.

On issues such as energy, we are very aggressive in terms of energy and mining. But in energy we're also looking at the region, with great investments in—

Ms. Raymonde Folco: If I may interrupt you, Deputy Minister, you talk about the region, and you mentioned Barbados just a little earlier, but you didn't mention the CARICOM countries as a general region.

H.E. Francisco Alvarez de Soto: Sorry, I mentioned Barbados because of the double taxation agreement.

Regarding CARICOM, if you go onto the website of the minister of trade, you will see in our strategy for this coming year that CARICOM is definitely a market we are pursuing. I'll be travelling to Trinidad next week. It definitely is a market we are looking at.

Panama has a free trade agreement with the region. Of course, we are engaging in economic integration with the region. Central America is definitely our back door. It's critical for us, and again for our trade partners it's an opportunity.

• (1640)

Ms. Raymonde Folco: That's fine.

The Chair: Thank you.

I will take this opportunity to thank our panel of witnesses today. Thank you very much for coming and for again taking the time, and for that clarity. We very much appreciate it. I hope we don't have to have you back again, although we'd very much like to.

Thank you again.

We'll take a one-minute break here while we bid adieu to our first round of witnesses and welcome our second round of witnesses.

- _____ (Pause) _____
-
- (1645)

The Chair: We have to resume, ladies and gentlemen. Thank you.

We're going to continue our discussion of the free trade agreement between Canada and the Republic of Panama.

We've had some interesting questions on taxation in the last round, and I'm sure that will continue.

I see we have an eminent author with us in this round. I think it should be stimulating and very interesting.

In this hour, from the Canadian Manufacturers and Exporters, we have Jean-Michel Laurin, who has been with us before. Monsieur Laurin is the vice president, global business policy, for the Canadian Manufacturers and Exporters. From the Université du Québec à Montréal, we have Alain Deneault, who is a sociology researcher. We also have Brigitte Alepin, who is a writer and an expert on fiscal policy and public finance. She is a published author on very similar matters, let me say, so it will be interesting.

I'm going to ask our witnesses to join us with brief opening remarks, maybe five minutes or less, to set a little background by way of their appearance here today.

So without further ado, I think I will begin with Brigitte Alepin.

[Translation]

Ms. Brigitte Alepin (Writer, Expert on Fiscal Policy and Public Finance, As an Individual): My name is Brigitte Alepin and I am an expert on fiscal policy and public finance. I've written books on this topic. My presentation is meant to give you a very brief overview of who I am.

I am a chartered accountant by training. I have a master's degree in taxation from the University of Sherbrooke and a Master in Public Administration from Harvard University. With my team's help, I have conducted major studies on some of the most complex topics in fiscal policy and public finance. These topics include energy taxation, e-commerce, tax havens, the environmental crisis and the health care system. These studies have yielded concrete results that are now reflected in the Canadian tax systems.

I wrote the well-known book *Ces riches qui ne paient pas d'impôts*, a best-seller in Quebec. My second book, *La crise fiscale qui vient*, will be available in bookstores on February 7, 2011.

Thank you.

[English]

The Chair: Thank you.

Monsieur Deneault.

[Translation]

Mr. Alain Deneault (Sociology Researcher, Université du Québec à Montréal): Thank you. My name is Alain Deneault. I am a researcher at the Chaire mondialisation, citoyenneté et démocratie of the Université du Québec in Montreal and I am also the author of the book *Offshore: Paradis fiscaux et souveraineté criminelle*.

My work tackles the issue of tax havens not only from the perspective of accounting, taxation, criminology or economy, but also from the global perspective of political thought, where all these areas come together. In my opinion, this type of work provides an opportunity to think through the precautions a legislator must take when dealing with a tax haven, a free port or a free zone, like Panama, which is a country of convenience.

From the references I used in my work and after reading tax experts like Grégoire Duhamel or Édouard Chambost, who are in favour of tax havens, I have come to the conclusion that Panama is a tax haven that allows ships to be registered at ridiculous rates because, around the world, free ports make it possible to lower maritime standards in terms of environmental protection, the right to work and taxation.

Panama is not only a tax haven in tax clemency, but also because corporate shareholders can remain anonymous and the owners of private foundations, where money laundering often takes place, remain unknown. Insurance companies can also be created in Panama and so on.

I would now like to stress that a number of criminologists will consider Panama as a hub for money laundering, linked to international drug trafficking, because of the Colon Free Zone. In his book *Trafic et crimes en Afrique centrale dans les Caraïbes*, Patrice Meyzonnier, the chief commissioner at the headquarters of France's judicial police, talks about a state involved in drug trafficking and in the laundering of a good chunk of the world's dirty money, with the Cayman Islands. He says that Panama plays a bridging role between the south and the north, from Colombia to the United States.

The criminal activity in the Colon Free Zone takes place mainly in the hotel industry, fictitious commercial spaces and fictitious rents. It is actually a whole economy of money laundering, corroborated by Marie-Christine Dupuis-Danon in another book, *Finance criminelle : Comment le crime organisé blanchit l'argent sale*. Marie-Christine Dupuis-Danon was the anti-money laundering advisor for the United Nations Office on Drugs and Crime. She tells us the following:

Drug traffickers capitalize on the benefits associated with free zones like the one near Colon in Panama. This zone actually fosters the movement of goods and cash, with little surveillance from the authorities. There are no fewer than 1,890 companies generating a total of \$5 billion annually in re-export activities. By definition, there are no customs duties on the operations carried out in the Colon Free Zone. As a result, the authorities are not able to enforce the regulations that are in effect in the rest of the country, including the declaration of sums over \$10,000. Drug traffickers buy goods and resell them for cash with a 20 to 30% discount to the dealers in the free port. So they deposit their pesos in banks in the free zone and transfer their funds to their regular accounts in Colombia.

Marie-Christine Dupuis-Danon also insists on the fact that, between Panama—

- (1650)

[English]

The Chair: I have to ask you to slow it down just a little for the benefit of our translator. She's doing an amazing job—well done—but we don't want to press her too much.

[Translation]

Mr. Alain Deneault: Since we don't have much time, I was speaking quickly. My apologies to the translators.

Still referring to the work of Marie-Christine Dupuis-Danon, I would like to add that Panama is open to the network of international tax havens where, as we know, about half of the world's flow of funds goes.

I will go over other data by focusing on another book, *Les Cartels criminels*, written by Alain Delpirou and Eduardo MacKenzie—MacKenzie being a jurist by training, that stresses that cocaine and heroine trafficking is a major industry in the region. It is an even greater problem since we know that the free port of Colon has direct access to an uncontrolled zone in Colombia.

Thierry Cretin is the author of *Mafias du monde : Organisations criminelles transnationales, actualité et perspectives*. He is a former French judge and he worked for the European Anti-Fraud Office. He tells us that the Colombian and Mexican mafias are very active in Canada while also being very present in Panama. Need I say more.

I will not go back to what Todd Tucker said in this committee. To conclude, I will just say that a free trade agreement between Canada and Panama would increase the porosity of Canadian jurisdiction when dealing with an economy described as criminal by many reliable criminologists. These are enough data for us to remain extremely vigilant. We can also add that, in principle, as citizens, not even as experts or specialists, we should not recognize a state that is not able to guarantee that it does not provide a safe haven for international crime. We also have to show caution in our policies. Thank you.

• (1655)

[English]

The Chair: Monsieur Laurin.

[Translation]

Ms. Brigitte Alepin: Mr. Chair?

[English]

The Chair: Excuse me?

Ms. Brigitte Alepin: I'm sorry.

[Translation]

I think I misunderstood when you invited us to do our entire presentation. If you wish, I can continue my presentation after Mr. Laurin or I can continue right away.

[English]

The Chair: I thought it was a bit brief.

Ms. Brigitte Alepin: I thought you were asking for a brief introduction about us. It was a mistake on my part.

The Chair: You'll excuse me. We've all been here before. Please carry on.

[Translation]

Ms. Brigitte Alepin: I'll continue then. A free trade agreement between Canada and Panama involving a considerable fiscal value has been signed but not ratified. You asked me here today so that I could give you my opinion on the matter. You are hoping to find out whether Canada should ratify this agreement.

First, this question is not getting so much attention from the Canadian government, because Canada is currently doing a lot of

business with Panama. Nor is it because this agreement is necessary to make business with Panama possible. The earlier testimonies pretty much cover these two points.

In reality, this agreement is getting so much attention from the Canadian government, seemingly for fiscal reasons. Ultimately, this agreement could allow the wealth of Canadian companies piling up in Panama and being taxed at a lower rate, or not at all, to be exempt from Canadian taxes as well.

This type of agreement is harmful for the public finances of industrialized nations but, unfortunately, Canada is stuck in the dynamic of international tax competition. If the competing countries conclude these kinds of agreement, which is the case here, it will be difficult for Canada to say no.

However, in light of the current situation, allow me to respectfully bring forward another issue that should pique your interest. The issue is so important that it makes the current issue pointless. The issue is this: could the gradual reduction of taxes for businesses be a failing of globalization?

Globalization as it is now is fundamentally different from globalization in the past. In 2010, financial capital is more mobile than human capital. This new relationship between financial capital and human capital was made possible through recent technological discoveries that make an increased mobility of financial capital possible, and new barriers to immigration limit human capital.

This increased mobility of financial capital allows multinationals to set themselves up in the most fiscally generous countries, creating fierce fiscal competition and the gradual decrease in business taxes. Since human capital is generally more limited in a specific jurisdiction, it ends up forming the group of taxpayers who make up the difference.

The statistics show that, for a number of countries, the tax revenue losses caused by reducing business tax are not financially offset by anticipated increases in economic activity and the corresponding taxes. Some countries, such as Greece and Ireland, can no longer keep up.

In Canada, corporate tax rates have dropped 50% since 2000, dropping from 29.9% in 2000 to the planned 15% for 2013, the largest decrease in the taxation rate in Canada's history, and the largest for all OECD countries.

According to the most recent statistics compiled by the OECD, between 1975 and 2007, the substantial decrease in corporate tax rates in Canada supposedly created a decrease of 25% in the proportion of income tax that Canadian companies pay to the public purse. This trend can also be seen in other countries. Take a look at the situation in Japan and the United States, where there have been decreases in the fiscal burden of companies and in public finances as well.

So far, most countries have been able to avoid a tax crisis because those countries were growing. The tax bases were broadened as the taxation rates went down. The loss could be made up by increasing the countries' debt or the tax burden of workers. However, both have their limits.

In Canada, the public finance burden supported by personal income tax rose from 22% in 1975 to 37% in 2007, an increase of 70%. In May 2007, the new *OECD Observer* explained that:

Without action, we could be on the verge of a global tax crisis that could hurt economic activity. The tax burden cannot be carried by labour and consumption alone. The upshot of inaction would be a loss of revenue for governments and a downward spiral in economic activity.

• (1700)

In May 2000, when corporate taxation rates of countries began dropping, the *Harvard Law Review* showed that:

[English]

Thus, globalization and tax competition lead to a fiscal crisis for countries [like Canada] that wish to continue to provide social insurance to their citizens at the same time that demographic factors and the increased income inequality, job insecurity, and income volatility that result from globalization render such social insurance more necessary.

[Translation]

I hope that my presentation has helped you to understand that Canada is currently trapped in a tax competition. Obviously, regardless of what we say here today, Canada is probably going to sign what needs to be signed so that Canadian companies can benefit from the tax haven that is Panama because it is trapped in this global trend.

I invite the committee to think more about this. Because now that we are all in this dynamic and that is shown to affect the public finances of countries, perhaps now would be the time to ask the bigger question. Thank you.

[English]

The Chair: Monsieur Laurin, maybe you have something to say about the trade agreements.

[Translation]

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

Good afternoon, everyone.

I can see that there are a few new faces around the table. First, I'd like to introduce the association that I have the privilege of representing here today. Then I will give you a little explanation as to why our association supports the free trade agreement that you are currently studying.

Canadian Manufacturers and Exporters is Canada's largest commercial and industrial association. The association has existed since 1871, and we have members in all industrial sectors in every province. To my knowledge, our association is the only one with permanent representation in Washington, in the United States.

Eighty-five percent of our members are small and medium-sized enterprises across the country, as I said. Just to give you an idea, Canadian manufacturing contributes to 13% of our GDP and to 12% of the workforce. It is a highly diversified sector and very export-oriented. In fact, we export more than half of what we produce. The manufacturing sector accounts for approximately two-thirds of Canada's total exports. So, our sector has an international focus and depends on access to foreign markets to survive, prosper and enjoy commercial success.

[English]

We're here today to support the Canada-Panama free trade agreement for a number of reasons. You probably know that manufacturing was the sector most affected by the recession that we have gone through lately. Shipments went down by about 25% from the peak to the bottom of the recession.

Since we've been out of the recession, manufacturing has outpaced other sectors of the economy and is actually growing faster than the rest of our economy. When you look at manufacturing shipments by province, you will see that between now and a year ago, things have improved.

There still remains some considerable challenges, but we're certainly seeing orders pick up, not only in our main market, which is the United States, but also internationally, in other growing, emerging markets.

• (1705)

When we do ask our members what drives business success in manufacturing in Canada going forward, one of the top answers we'll get from most manufacturers, if not the top answer, is around the importance of developing new markets around the world. There are a number of other important factors, whether it's trying to be more innovative with a focus on developing and incorporating new technologies into your business or making better use of the skills and knowledge of people, but I'd say that export and international trade development is at the top of the list.

The more you see manufacturing companies become niche players, more specialized in what they're doing, the more they have to look beyond Canada and North America for customers. This is why trade agreements, such as the Canada-Panama free trade agreement we're looking at today, previous trade agreements that have been ratified by Parliament and the ones still under negotiation, are very important in removing some of the business barriers our members are facing when they go to other markets. They're also very critical to making sure that Canada keeps up with its main trading partners, keeps up with some of our competitors, namely the United States.

In other words, when the United States negotiates and ratifies free trade agreements, we need to be in some ways aligned with what the Americans are doing, but also very strategic, because our sectors and our sensitivities can in some cases be different.

To wrap up, Panama accounts for a very small share of Canada's total exports, but when you look at the numbers, as I know you have, you see it's a growing market for Canadian exporters. Discounting the fact that we have had a recession, I think the long-term trend is that markets such as Panama, which are growing at a better pace than some of our existing customers, represent a wealth of opportunities for Canadian businesses.

In many sectors tariff barriers remain a significant hurdle to doing business in these markets. This agreement, by removing or improving most tariffs paid by Canadian exporters when selling goods to this country, would help Canadian companies to better position their goods and services into this market.

I would say that an increasing share of world economic growth is coming from emerging economies such as Panama. We're seeing a greater share of economic growth, globally, coming from such markets. Canadian businesses are looking to get into these markets. They're facing some tough competition from other parts of the world, and having a free trade agreement is a first step to helping Canadian businesses better position themselves in some of these growing markets.

Obviously more is going to be needed if we want to translate a trade agreement into additional business for Canadian companies. Companies are doing what they need to do to get into these markets, but support from the government and other service partners is going to be essential if we want to do a better job of exporting and engaging in international trade with these growing economies.

I'll stop here. Thank you very much.

The Chair: Thank you, Monsieur Laurin. That was very good.

I'm pleased that all three of you were able to get as much in as you did in five minutes. It happens today that we do have limited time.

I think we're going to have to change the format a little and go to five-minute rounds so that each of the parties can have a chance to ask their questions.

I'm going to try to stick very closely to five minutes each. We're going to begin with Madam Hall Findlay, then Monsieur Laforest and Mr. Julian.

There will be five minutes for questions and answers. I'll ask the panel to try to get their answers in within that time as well.

[*Translation*]

Ms. Martha Hall Findlay: Thank you very much, Mr. Chair.

I would also like to thank everyone for being here this afternoon.

Mr. Laurin, you represent a lot of small and medium-sized enterprises. Are they interested in a free trade agreement with Panama because they want to take advantage of a tax haven?

• (1710)

Mr. Jean-Michel Laurin: This isn't something that I heard our members talk about when we consulted them on this topic.

For most small and mid-sized Canadian manufacturing enterprises, Panama is not on their radar. But I know that businesses have contracts or clients there.

I know, for example, that you have heard from representatives from SNC-Lavalin. They have a number of suppliers who are with them when they do projects abroad. For some businesses, it's an important market, but for most of them, that market isn't a priority.

However, as for investment, the topic of tax havens isn't something that we heard when we spoke to our members.

Ms. Martha Hall Findlay: I asked that question because I have a lot of respect for the suspicions. We know there were discussions. We absolutely must try to uncover and stop illegal operations. We all agree on that.

However, we aren't talking about full globalization; we're talking about free trade between Canada and Panama. We need to take note

of all the testimonies that we've heard from farmers. Frankly, they aren't interested in Panama as a tax haven. They are interested in Panama because they can sell more produce. It's good for their economy. We've heard from other witnesses from small- and mid-sized enterprises who want to take part. They want the prosperity that is possible through additional trade with Panama. We heard the same thing from witnesses from Panama.

I'm not trying to show a lack of respect here for the other topics and other things we need to do, absolutely not.

Ms. Alepin and Mr. Deneault, knowing that so many people want us to support this agreement for all sorts of good reasons, despite the suspicions that you are raising, can you now say no? Can you now say that Canada should not say yes to this agreement, knowing that a lot of people want it for their business and their prosperity? Do you really think we should turn it down?

Ms. Brigitte Alepin: Do you want to respond?

Mr. Alain Deneault: Yes. I don't know if that's a question or a reprimand.

Ms. Martha Hall Findlay: No, it's a question. I want to know. It's a fairly simple answer.

Do you want us to say no?

Mr. Alain Deneault: I heard the question.

First, on the matter of bank secrecy, which is quite central when we're talking about tax havens: for people who skirt the rules of law, this involves hiding. Of course, no one is going to come to us and say that they are trying to benefit from tax havens—

Ms. Martha Hall Findlay: But—

Mr. Alain Deneault: Can I finish?

Ms. Martha Hall Findlay: We don't have a lot of time, but—

Mr. Alain Deneault: Mr. Chair, can I please finish? By definition

Ms. Martha Hall Findlay: Is it yes or no?

Mr. Alain Deneault: By definition, tax havens involve hiding information and assets from a rule of law, shielding activities or accountability from the place where the activities are being carried out.

So, you say that so many people are for it; but what I have noticed is that so many people are completely unaware of what a free trade agreement between Canada and Panama would really mean. The public is in—

Ms. Martha Hall Findlay: Excuse me. We are the committee. We are the ones who call the witnesses.

Mr. Alain Deneault: I would like to finish. Can I finish just one of my sentences?

Ms. Martha Hall Findlay: Excuse me, but—

Mr. Alain Deneault: Otherwise, the big problems that will surface in terms of tax havens and the issue of such an agreement are that there will be significant losses in collective wealth because tax evasion, tax leakage and audacious tax practices will continue.

So, at this point, there is reason to be against it, not to mention all the problems related to bi-directional money laundering in both jurisdictions. I think this obviously isn't the right time or place to go into details, but all these reasons are really good ones for opposing the agreement.

Ms. Martha Hall Findlay: Do you want to say no, too?

Ms. Brigitte Alepin: You are asking us to answer yes or no. What is the question exactly?

Ms. Martha Hall Findlay: We are trying to determine whether we are going to support this agreement. This is part of what committee members do. I really want to know if you, as witnesses, want us to support this agreement or not.

• (1715)

Ms. Brigitte Alepin: When I gave my presentation earlier, I think I was clear on the fact that not only—

[*English*]

The Chair: No, you weren't.

[*Translation*]

Ms. Brigitte Alepin: — you are forced to say yes because of the international tax competition, but you are going to say yes. That's what's going to happen because you don't have a choice, given—

[*English*]

The Chair: Okay. I think that pretty much wraps it up. I'm sorry, but we are over the five minutes, and we do have to carry on to allow everybody an opportunity.

Monsieur Laforest.

[*Translation*]

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

I would like to continue on the same topic, Ms. Alepin. To the question that the member from the Liberal Party asked you, you said that we will say yes. The issue of tax fairness is a very important principle to me. Mr. Deneault just said that there will be significant losses in revenue, that the Quebec tax system will lose significant revenue. You also talked about globalization. I think it would be preferable for the government, through its power to intervene—the power to negotiate a free trade agreement—should say that, if we do not agree on the principles of tax fairness, we will not conclude the agreement. You said that you know that we are going to accept the agreement in the name of globalization, but, at some point, some political parties will have to stand up and say that we must oppose it, also in the name of tax fairness.

Ms. Brigitte Alepin: What you are saying is very interesting, but in reality, from the moment we opened the markets to multinationals and allowed them to shop for tax systems, we put these systems into tax competition with each other. Here, we are talking about the agreement with Panama, but we could also very well be talking about free trade agreements with all the tax havens, and the discussion would be the same. All these discussions would have one thing in common: the competitiveness of our Canadian businesses. I

am the first to say the same as you did, and I said it in my presentation earlier: reducing taxes for business is a major problem that must be discussed outside the Canada-Panama agreement. I mean no disrespect, but it needs to be discussed at an international table, and not this one here.

Mr. Jean-Yves Laforest: I agree with you completely, but I have a very specific question for you. You wrote a book called *Ces riches qui ne paient pas d'impôts*. After concluding a free trade agreement with Panama, after concluding an information exchange agreement or not, or on double taxation, will there not be an advantage for wealthy Canadians who will not pay taxes?

Ms. Brigitte Alepin: Not only will more people not pay tax, but on top of that, what's much more significant—

Mr. Jean-Yves Laforest: More poor people will pay more tax.

Ms. Brigitte Alepin: — and I will try to explain that in 30 seconds. In all taxation principles for managing a country, there is one that I think is extremely important, and that is that there must always be a balance between voters, markets and the state. Obviously, we know that the markets have become more important than the state and perhaps even more important than the voters or the general public. We know that. It's okay and it's known because we believe in the virtue of the markets. However, we need to analyze all tax reductions for business. This doesn't mean just the rich and super-rich; this endangers this balance that we're trying to maintain between the state, the markets and the public.

Suppose that this is okay and that the fact that the multinationals sometimes become more powerful than the state itself has become a reality. Very slowly, because of discussions like the one we're having here, that focus on an agreement with a tax haven—and next year, it will be with another—we will in the end allow a global reduction in taxes for business. The situation will have to be analyzed in a context in which the relationship among markets, the state and voters will be thrown off balance. One day, we could very well find ourselves in a situation where the state has much more power than the two other levels. Furthermore, the markets would not pay tax, and the entire tax burden would be transferred to actual people.

• (1720)

Mr. Jean-Yves Laforest: Excuse me, we only have five minutes.

Mr. Deneault—

Ms. Brigitte Alepin: Fine.

Mr. Jean-Yves Laforest: — I would like a simple comment on the fact that there will be more rich people. At the same time, the direct consequence of that, the poor people will have to pay more for the tax burden of Canada and Quebec.

Mr. Alain Deneault: I can add something about this political problem. Funds that escape taxation are not just sitting on exotic islands far away, or in countries like Panama. These funds are being put to use and mixed with the proceeds of crime.

A French judge, Jean de Maillard, said that, these days, we no longer distinguish between legal and illegal economy, since they are mixed together. I am not going to quote all the UN, European Union or French criminologists I mentioned, but they would say that when we invest in Panama, it is money laundering, disguised as investment, at the same time as we are finding out here that the Colombian mafia are active and sending funds back to Panama.

We see that there is a sort of funnel between the two systems, and we will make it easier for criminals to launder money by creating all kinds of legal ways to disguise dirty money as clean money. It's a very serious political problem that goes above and beyond the simple tax evasion mentioned by Ms. Alepin, who I completely agree with.

Mr. Jean-Yves Laforest: Thank you.

[*English*]

The Chair: Mr. Julian.

[*Translation*]

Mr. Peter Julian: Thank you very much, Mr. Chair.

I would also like to thank our three witnesses for being here today.

Since I have only five minutes, I would like to move immediately to my questions.

Since the start, the problem with Panama has been money laundering and criminal activity. As you know, the United States Internal Revenue Service has clearly shown that Panama is one of the biggest problems in the world when it comes to criminal activity and tax havens. The government has always implied that there would eventually be an agreement, an agreement to exchange tax information, with the Panamanian government. The government sent a letter last year, but today, just before you arrived, we heard from three representatives from the Panamanian government who clearly opposed a rejection of these requests. They said that—

[*English*]

A tax information exchange agreement isn't in Panama's economic interests.

[*Translation*]

We're not talking about something that is going to happen eventually. They said that they aren't going to sign it. My Liberal colleague is not talking about agreements on double taxation, which is completely different and avoids all issues relating to criminal activity and money laundering. We certainly need a tax information exchange agreement.

My question is for Mr. Deneault and Ms. Alepin. Given that the Panamanian government refuses to sign this agreement—all that it is offering is an agreement making it possible to avoid fiscal double taxation—should we suspend discussions on implementing this agreement by waiting for the Panamanian government to change its mind?

Ms. Brigitte Alepin: Because of how this is working right now—you know it because you heard it in committee—even though the Panamanian government had talked about concluding a information exchange agreement, it isn't necessarily a token of good faith or—

Mr. Peter Julian: No, but they said that they would not sign such an agreement because it isn't in their economic interest.

In your opinion, all things considered, should we scrap the implementation of this agreement because the Panamanian government is refusing to sign this tax information exchange agreement?

Ms. Brigitte Alepin: If the government's goal is to find a way not to sign the agreement, the fact that the Panamanian government is refusing to sign this information exchange agreement gives it a valid reason.

Mr. Peter Julian: I will now ask the same question to Mr. Deneault, because it is a very important aspect of everything that we have just discussed today.

• (1725)

Mr. Alain Deneault: If we start with the understanding that there is no agreement for disclosing information and that we're dealing with a country seen as one of the largest sources of money laundering in the world, and we sign such an agreement, we would be sending a message internationally that Canada is becoming a funnel for laundered drug money. That would imply an upheaval in our economies and sovereign jurisdictions giving up authority over the economy and criminality of all kinds. So we shouldn't sign it.

Mr. Peter Julian: If Canada signs a free trade agreement that doesn't disclose tax information and if, therefore, we do not have a tax information exchange agreement, it could help drug traffickers?

Mr. Alain Deneault: Exactly, because we would be dealing with legalization and an ever-increasing openness to highly proven methods of money laundering, such as making legal investments with money that basically isn't. This is how money laundering works.

Ms. Brigitte Alepin: It's obvious that, for Canada, not having this information exchange in the future with Panama would be limiting, if the flow of commercial relations between the two countries becomes significant—as it may be in the future. In any case, it is Panama's goal to become a bigger and bigger player on the international scene.

Obviously, if this information exchange does not exist, it would prevent the Canadian government from going and checking transactions made by Canadian businesses through their affiliates or branches in Panama.

[*English*]

The Chair: Thank you.

We're going to wrap up with Mr. Chong and Mr. Trost.

Mr. Chong.

[*Translation*]

Hon. Michael Chong (Wellington—Halton Hills, CPC): Thank you, Mr. Chair.

I am going to ask a question, and I want to say something.

[*English*]

Before I ask a question, I think there are a couple of mistakes in your presentation, Mr. Laurin. I think you probably wanted to say, on page 2, the slide at the top, that Canadian manufacturing accounts for 31% of Canada's GDP, not 13%.

I also wanted to point out that manufacturing in Canada is not a \$1.6 trillion business—that is the size of the entire Canadian economy. I think we have other industry sectors besides that. But those are two minor points.

This trade agreement really comes as a result of the failure of the WTO to achieve any progress on further trade liberalization. Many people believe that the failure of the WTO is the cause of these bilateral and regional multilateral trade agreements that are sprouting up all around the world.

From the Canadian manufacturers' and exporters' position, would you rather have governments pursue the WTO route or these bilateral and multilateral agreements?

Mr. Jean-Michel Laurin: That's a good question. I'll start by answering it, and then refer to the comments you made at the beginning of your short presentation.

I think we need to pursue both. We'd like to see multilateral—

Hon. Michael Chong: But there are many people who argue that the multilateral or the bilateral approach is weakening the WTO round of negotiations.

Mr. Jean-Michel Laurin: I believe that Canada should be pursuing discussions at the multilateral level and try to play a leading role. But with negotiations being stalled right now, we can't just sit on the sidelines and say, "We shouldn't be doing anything bilaterally because we need to put all our eggs in a multilateral basket."

We're seeing the United States signing free trade agreements with other markets, and we're seeing the European Union doing the same thing. Our members are competing internally for investment dollars, right? We had a discussion on the Canada-European Union free trade negotiations recently with some of our members. This is a great opportunity for Canadian companies to position Canada as the developed economy, where you can access highly skilled labour and have duty-free access into the two largest export markets in the world. In that sense, we have no other option but to pursue the bilateral route for the time being.

With regard to the numbers in my presentation, yes, manufacturing directly accounts for 13% of Canada's GDP. It was 16% in 2005, but that's the—

• (1730)

Hon. Michael Chong: But \$500 billion of \$1.6 trillion is 31%.

Mr. Jean-Michel Laurin: The \$500 billion is manufacturing sales, where GDP calculates value-added. That's the distinction.

Hon. Michael Chong: Well, \$500 billion in sales of \$1.6 trillion is....

Mr. Jean-Michel Laurin: Well, \$1.6 trillion is actually the total value of sales. Basically, every dollar of manufacturing production generates \$3.25 in total economic activity in Canada. We're looking at sales here, not value added; the GDP numbers account only for the value added. Our numbers account for total sales. So that's why the number is much bigger than you would see for the GDP number.

Hon. Michael Chong: Okay, well, I think it's still an error.

Voices: Oh, oh!

Hon. Michael Chong: I think if you have \$500 billion in sales, then you have an error in your presentation.

A voice: So what?

Hon. Michael Chong: So what?

Well, the point is that you'd like to have the facts consistent and have the correct data.

Mr. Jean-Michel Laurin: But this is StatsCan data actually. I can give you the source if you want it. It's the manufacturing sales published every month by StatsCan.

Hon. Michael Chong: Okay. Those are all the questions I have, Mr. Chair.

The Chair: You have 30 seconds, Mr. Trost.

Mr. Brad Trost (Saskatoon—Humboldt, CPC): I was just going to ask Mr. Laurin about the importance of getting an agreement before the United States. I know it's important for our agriculture industry that we get this trade deal and get in there first. Is it the same for manufacturing, and how do they plan to exploit it?

Mr. Jean-Michel Laurin: Especially for food processors, I know that many of them already see Panama as an important market. I think it's key that we get our agreement in place before or at the same time as the United States.

But for other sectors already in that market, it's very important that we get an agreement. Otherwise, if we don't get an agreement in place and the United States does, we will be at a competitive disadvantage and Canadian companies risk losing customers, especially in sectors where the tariffs remain significant barriers to business.

Mr. Brad Trost: Thank you.

The Chair: Again, sorry for the short time. We're going to do all of this again on Wednesday. We'll try to move it along a little more quickly.

First of all, let me say to our witnesses before we conclude, thank you again for coming. I'm sorry about the time. We want to hear as many witnesses as we can, and we do have your statements. You were very helpful, all of you. Thank you very much.

To the committee, let me say that we're going to have on Wednesday the last of our witnesses, who were cancelled inadvertently last week because of votes. We'll have three out of the four of them back on Wednesday, meaning that we will have had all of the witnesses who indicated they wanted to appear. So my suggestion is that we then proceed on Monday next with clause-by-clause consideration of this bill.

So the last witnesses are on Wednesday.

Mr. Julian.

Mr. Peter Julian: Mr. Chair, I have no objections, but I would just like to double-check to make sure we've caught all of the witnesses. I understand your concerns about going to clause-by-clause.

I think there's one, and possibly two, that still—

The Chair: I tried to raise that last week so we could get them here. We've been quite diligent in pursuing all of those we've heard anything about. If there are more, I would probably have room for one more on Wednesday. But I think we've given a fair amount of time and made a considerable effort to try to hear them all.

In any event, let's proceed on that basis until further notice. We'll see you Wednesday.

Did you have something to add?

Ms. Martha Hall Findlay: Is there not a meeting the following Wednesday, the last Wednesday?

The Chair: We may have, but I don't have an agenda yet. I'm hoping we'll either proceed to something new or not have a meeting on that Wednesday.

Ms. Martha Hall Findlay: Okay. I just wasn't sure if we've actually had that discussion yet.

The Chair: No, we haven't had the discussion about the Wednesday before the break, presumably. We can't be presumptuous about when Parliament breaks. That is always in flux at this time of the year. But we'll get to it the day before, in any event.

Thank you for your attendance today.

We're adjourned.

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