



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

## **Standing Committee on International Trade**

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CIIT • NUMBER 003 • 1st SESSION • 41st PARLIAMENT

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**EVIDENCE**

**Thursday, September 29, 2011**

**Chair**

**The Honourable Rob Merrifield**



## Standing Committee on International Trade

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•(1105)

[English]

**The Chair (Hon. Rob Merrifield (Yellowhead, CPC)):** I call the meeting to order.

We want to thank the Department of Foreign Affairs and International Trade for coming to dialogue with us with regard to questions we may have on free trade deals with Jordan, Panama, and India. We want to thank you for coming.

We have the ADM for trade policy negotiations, Mr. Stephenson.

You have a team of people with you. I will let you introduce them and give you the floor to make introductory remarks, and then we will move on to questions and answers.

[Translation]

**Mr. Don Stephenson (Assistant Deputy Minister, Trade Policy and Negotiations, Department of Foreign Affairs and International Trade):** Thank you, Mr. Chair.

It is my pleasure to introduce my colleagues and let them do all the work.

I will be answering your questions.

[English]

Kirsten Hillman is the director general for trade policy negotiations bureau. We have Barbara Martin, who is director general, Middle East and Maghreb bureau. Ken Macartney is the director general for South and Southeast Asia and Oceania. Neil Reeder is the director general for Latin America and the Caribbean.

If there is an order in which they wish to make their brief remarks, I wasn't advised of it, so Kirsten, you have the floor.

**Ms. Kirsten Hillman (Director General, Trade Negotiations Bureau, Department of Foreign Affairs and International Trade):** Thank you very much.

**The Chair:** Go ahead.

[Translation]

**Mrs. Kirsten Hillman:** Thank you, Mr. Chair and members of this committee, for the opportunity to speak to you today.

As Mr. Stephenson said, I am the Director General of the Trade Negotiations Bureau at the Department of Foreign Affairs and International Trade.

In my presentation today, I will provide some general information on the Canada-Panama FTA and the Canada-Jordan FTA.

I will also touch on the parallel agreements on labour cooperation and the environment that were negotiated at the same time as these agreements.

[English]

First, let me turn to Panama.

Panama has had one of the fastest-growing economies in the Americas. Its real gross domestic product growth in 2010 was 7.5%, and its real GDP is expected to show further growth in 2011. Two-way merchandise trade between Canada and Panama reached \$213.7 million in 2010.

Panama is also a strategic hub for the region. It processes approximately 5% of the total global trade and is recognized as an important platform for commercial activity throughout Latin America. Against that backdrop, Canada sought and obtained a high-quality, comprehensive FTA with Panama.

Once in force, this agreement will provide important commercial gains for the Canadian economy by offering Canadian workers and businesses preferential access to this dynamic and growing market. Specifically, upon implementation of the FTA, Panama will eliminate tariffs on 99.9% of recent non-agricultural imports from Canada. Panamanian tariffs on 88% of agricultural imports from Canada will also be immediately eliminated. This significant reduction in trade barriers will directly benefit a number of sectors that are already established in Panama, including agriculture and agrifood products, pulp and paper, machinery, and others.

In the area of investment, the FTA will lock in market access for Canadian investors and provide them with greater stability and protection for their investments.

The FTA will provide enhanced access for services sectors of interest to Canada, including professional services, engineering, mining, construction, and environmental services.

Government procurement is an area in which Canadian workers and companies stand to benefit the most. The government procurement provisions in the Canada-Panama free trade agreement guarantee that Canadian suppliers will have non-discriminatory access to a broad range of procurement opportunities, including the ongoing \$5.3-billion Panama Canal expansion and its associated projects.

But Canada is not the only country with which Panama has negotiated a free trade agreement. It is expanding its global reach through the negotiation of trade agreements with countries such as the United States and markets such as the European Union. So it's important that we implement this agreement to ensure that Canadian companies remain competitive in the Panamanian market and do not compete against their competitors on an uneven playing field.

I'd now like to turn to the Canada-Jordan free trade agreement. Jordan is a growing market for Canada. In 2010, two-way merchandise trade between Canada and Jordan reached \$85.9 million. Our exports to Jordan have more than doubled in the past seven years, and it's clear that Jordan's economy provides promising opportunities for Canadian workers and businesses.

Jordan is also a key partner in the Middle East. As Canada's second free trade agreement with a Middle East country, the Canada-Jordan free trade agreement will help improve market access, but it will also provide a platform for expanding commercial ties and raising Canada's profile in the broader Middle East.

The Canada-Jordan free trade agreement was signed in June 2009. Negotiations were concluded after just three rounds.

Upon entry into force of this agreement, Jordan will eliminate tariffs on over 99% of recent Canadian exports. This is very significant, because Jordan's current average applied tariff is 11%, with peaks of up to 30% in their applied tariffs.

Key Canadian sectors will benefit from duty-free access, including forest products, machinery, and agricultural exports such as pulses, frozen potato products, and beef.

Once implemented, this agreement will level the playing field for Canadian exporters vis-à-vis competitors in the global marketplace. In fact, the U.S. and the EU currently have free trade agreements with Jordan.

Now I would like to turn to the labour cooperation and environment agreements that were negotiated in conjunction with these two free trade agreements.

We have signed labour cooperation and environment agreements in parallel with the free trade agreements with Panama and Jordan. The parties to the labour cooperation agreements have committed to ensure that their laws respect the 1998 International Labour Organization's ILO Declaration on Fundamental Principles and Rights at Work, which covers the right to freedom of association, collective bargaining, the abolition of child labour, elimination of compulsory labour, and the elimination of discrimination.

The agreements on the environment commit parties to maintain high levels of environmental protection, to effectively enforce domestic environmental laws, and to not relax or derogate from such laws in order to attract trade and investment.

● (1110)

In conclusion, the Canada-Panama FTA and the Canada-Jordan FTA will create jobs and economic growth for Canada, and will also contribute to greater prosperity for all three nations.

These FTAs also have the support of key exporters and investors across Canada, and will directly support the government's ambitious

pro-trade plan and policy to help Canadian companies access new markets in this competitive global economy.

I would like to thank the committee for the opportunity to speak to you today about these important agreements, and I would be pleased to answer any questions you have on these initiatives.

**The Chair:** Thank you very much.

Go ahead, Ms. Martin.

**Ms. Barbara Martin (Director General, Middle East and Maghreb Bureau, Department of Foreign Affairs and International Trade):** Thank you, Mr. Chairman and members of the committee, for the opportunity to speak today.

My name is Barbara Martin. I am the director general of the Middle East and Maghreb bureau of the Department of Foreign Affairs and International Trade.

Today I'll provide you with some information on Jordan's economy, and on Canada's bilateral and commercial relations with Jordan.

As one of the smallest economies in the Middle East, Jordan is a lower-middle-income country with a young population. It faces certain structural challenges, including limited water, oil, and agricultural land, as well as chronic high rates of poverty, unemployment, inflation, and a large budget deficit. Reducing poverty and increasing employment opportunities will be crucial to Jordan's long-term stability.

The global economic slowdown has depressed Jordan's GDP growth. Although growth rates were in excess of 7.5% from 2006 to 2008, growth fell to 2.3% in 2009, and 3.1% in 2010. Export-oriented sectors such as manufacturing, mining, and the transport of re-exports have been hit the hardest, although Jordan's financial sector has been relatively isolated from the international financial crisis.

Since assuming the throne in 1999, King Abdullah has implemented significant economic reforms, such as opening the trade regime by becoming a WTO member and further opening markets to imported goods and services, privatizing state-owned companies, and eliminating most fuel subsidies.

Over the past few years these reforms have encouraged economic growth by attracting foreign investment and creating some jobs. The government's privatization efforts in the industrial, telecommunications, and transport sectors have opened up industries such as potash, phosphates, and telecoms. Jordan has several free trade agreements in effect with other countries, including the U.S.

[Translation]

Canada and Jordan have enjoyed solid bilateral relations for many decades, based on shared interests and values, and people-to-people links that include approximately 7,000 Canadians with Jordanian ancestry. As a moderate Arab state with a constructive foreign policy, Jordan is a natural partner for Canada and an effective interlocutor on issues of concern to the Arab world.

In the context of the Arab Awakening, Canada commends Jordan's commitment to peaceful reform and development, and we are encouraging the government to continue implementing the political reforms that respond to the needs of citizens, and economic reforms that will underpin growth and job creation.

For Canada, Jordan presents a small but stable and transparent market. Its rising importance as a regional shipping and transportation hub have made it increasingly interesting to Canadian companies. Jordan is already a key market for numerous Canadian businesses and producers. For example, the Potash Corporation of Saskatchewan is a major investor through its partnership with Arab Potash Company. Canadian companies such as Research in Motion, Bombardier, SNC-Lavalin, Four Seasons Hotels, Second Cup coffee shops and many others are active in Jordan.

• (1115)

[English]

Our close relationship with Jordan is also exemplified through strategic assistance provided by the Canadian International Development Agency. Canada has become a leader in international support to Jordan's education and skills for employment sectors, with annual bilateral disbursements averaging \$7 million. This bodes well for a more knowledge-based economy and greater potential to do business with Canada.

The Canada-Jordan free trade agreement, along with related agreements on labour cooperation and the environment, was signed in June 2009 by the Honourable Stockwell Day, former Minister of International Trade, and his Jordanian counterpart. The Jordanian government has since announced that they have completed ratification of all these agreements. Once Canadian legislation to implement the agreement is passed and receives royal assent, the Canadian government will work with Jordan to implement the agreements as soon as possible.

The Canada-Jordan FTA is a win-win proposition for workers and businesses in both countries. It's a catalyst for increased business operations and expanded two-way trade, and it will contribute to improving relations with a number of our key partners in the Middle East.

I would like to thank the committee for the opportunity to speak, and I would be pleased to answer questions.

**The Chair:** Thank you.

**Mr. Ken Macartney (Director General, South, Southeast Asia and Oceania, Department of Foreign Affairs and International Trade):** Good morning.

I'm Ken Macartney, the director general for South and Southeast Asia and Oceania.

[Translation]

It is my pleasure to be here today to speak to the committee on the topic of India. I am joined today by my colleague Don Stephenson, Chief Negotiator for the Canada-India comprehensive economic partnership agreement.

This afternoon, I propose to provide to you a general overview of Canada-India bilateral relations as well as share with you our plan for the coming months with regard to several initiatives currently underway. I would be pleased to answer any of your questions following the presentation.

[English]

Don Stephenson will answer questions specific to the Canada-India comprehensive economic partnership agreement.

Just a word about bilateral relations.... Canada-India relations continue to grow deeper and stronger. Committee members may be aware that 2011 is the Year of India in Canada, an initiative of the Indian government. This year-long series of events has successfully raised awareness in Canada of India's rich cultural heritage and its bright future. We too have engaged in many advocacy efforts in India.

This summer Toronto hosted both the International Indian Film Academy Awards and a major diaspora event, the Pravasi Bharatiya Divas, or the Day of Overseas Indians, which showcased Canada to many Indians.

Engagement is also increasing in the realms of science, technology, research, and academic exchange. In addition to the bilateral science and technology agreement already in place, budget 2011 provides \$12 million over five years for a Canada-India Research Centre of Excellence.

The past year has witnessed reciprocal visits by dozens of university and college leaders from both countries. The number of Indian students to Canada surged last year to record numbers. All of this bodes well for much-expanded bilateral cooperation in the knowledge economy. Official consultations and agreements provide an expanding framework for relations.

On the commercial side, we've had regular, expert-level dialogue through annual trade policy consultations. Last fall we had the first of what is intended to be an annual ministerial dialogue on trade and investment. This event provides a platform to further advance our trade relationship and will help us reach our goal of tripling trade by 2015.

We're working to conclude the foreign investment promotion and protection agreement, and we're finalizing the last details of the Canada-India social security agreement.

Canada and India have signed a nuclear cooperation agreement that will allow for Canadian companies to participate in commercial civil nuclear power opportunities. We look forward to the conclusion of the administrative arrangement that will allow our nuclear cooperation agreement to be fully implemented.

We are beginning to cooperate more intensively on energy issues. Canada can share expertise in areas such as hydroelectric power and clean coal technologies, and learn from India in areas where it is a world leader, such as in wind and solar power technology.

As you know, India is a priority market for Canadian commercial engagement. Its rapidly growing economy, with growth rates maintained at 6% to 7% and in fact 8% even through the global economic crisis, is predicted to be the world's fourth-largest by 2025 and the third-largest by 2050. India is expected to become the world's most populous nation by 2050, and its growing middle class, estimated at between 150 million and 250 million, is estimated as a \$400 billion market.

Canadian workers and businesses have yet to seize the full potential that the Indian market has to offer. Two-way merchandise trade reached \$4.2 billion in 2010. India is our 13th-largest destination for merchandise exports, and our 19th-largest source of imports. Our goal, as mentioned, is to reach \$15 billion in two-way trade by 2015.

Most encouraging is the two-way flow of foreign direct investment between Canada and India. In 2010 two-way direct investment reached a record level of \$7 billion, the majority being Indian investments into Canada.

• (1120)

The Canada-India commercial relationship is not limited to traditional trade and investment only, as India is becoming an integral part of the global supply chains. Canadian companies such as Bombardier, Sun Life, and SNC-Lavalin have a long history of partnership in India, while Indian companies such as Essar, Tata, and Birla are equally active in the Canadian market. Our goal is to triple the number of companies that are active in India over the next three years.

Prime Minister Stephen Harper and Prime Minister Manmohan Singh of India announced the launch of comprehensive economic partnership negotiations during the G-20 summit in Seoul on November 12, 2010. Following the launch, negotiating rounds were held in November and July. The negotiations with India are a high priority, and we will seek to complete negotiations in 2013, as indicated in the 2011 Speech from the Throne. The committee will be interested to hear that a recent joint study estimated that a free trade agreement between the two countries has the potential to boost Canada's economy by \$6 billion to \$15 billion, creating jobs and prosperity for Canadian workers and for businesses of all sizes in every corner of the country.

[Translation]

On September 23, the Minister of International Trade, Ed Fast, held his first face-to-face meeting with Anand Sharma, India's Minister of Commerce and Industry, in New York City.

Both ministers conveyed their shared commitment to continuing to broaden and deepen our economic and social ties, and agreed the next round of negotiations aimed at producing a comprehensive economic partnership agreement between Canada and India should take place in October in Canada.

At the conclusion of their meeting, Minister Fast, on behalf of the Government of Canada, personally invited Minister Sharma to visit Canada again at his earliest convenience to personally continue their productive dialogue and progress. Minister Fast also committed to personally visiting India for the same purpose in the near future.

[English]

To conclude, Canada is well positioned to partner with a growing India. We share democratic traditions and legal frameworks, our growing official ties are bolstered by significant people-to-people links and regular high-level interaction, and companies in both countries are becoming more aware of the opportunities for trade and investment, facilitated by a network of trade commissioners in eight Canadian missions throughout India.

If I could, I'd like to take a moment to thank Mr. Keddy for opening our trade office in Calcutta a couple of years ago. It was much appreciated.

I'd be pleased to answer questions that you might have on Canada's trading relationships with India, and of course Don Stephenson is also here to answer questions.

Thank you.

• (1125)

**The Chair:** Thank you.

Mr. Reeder.

[Translation]

**Mr. Neil Reeder (Director General, Latin America and Caribbean, Department of Foreign Affairs and International Trade):** Thank you for inviting me to join you today.

[English]

My name is Neil Reeder, director general, Latin America and Caribbean.

Let me also thank Mr. Keddy for his contribution to our trade programming in Central America. His visits to the region led to progress, certainly in the case of Panama and Honduras.

I'd like to talk today a bit about the bilateral commercial relationship between Canada and Panama. Once approved by Parliament and ratified, our FTA with Panama will become an important element of that bilateral commercial relationship and provide new opportunities for increased commercial activity between our two countries.

[Translation]

Panama and Canada already maintain close bilateral relations and our policies and objectives are well aligned in the region. Our two countries continue to work together to strengthen and promote freedom, democracy, human rights and the rule of law throughout the Americas.

By strengthening our trade and investment ties with Panama we are supporting the government's Americas strategy, as well as our broader efforts to promote market liberalization, combat protectionism, build bridges to global markets and support a more prosperous hemisphere.

Latin America and the Caribbean is an economically dynamic region which presents significant opportunities for commercial partnership with Canada. We have already seen a 50% increase in Canada's two-way trade with Latin America and the Caribbean in the last five years.

[English]

Panama plays a prominent role in our regional engagement, not only as a vital logistics artery but also now as the fastest-growing economy in Central America, with a GDP growth of 7.5% in 2010. Panama received the fifth-highest score in Latin America last year in the annual World Bank ratings of countries for ease of doing business. The country welcomes international commerce and is committed to providing a facilitative environment for trade and investment.

Panama is also our largest export market in Central America. The bilateral trading relationship has grown 61% since 2009, reaching \$213 million in bilateral trade in 2010. We believe there is great potential for further expansion. Increased engagement will help maintain our exporters' competitive position, which is challenged by the recent signing of a bilateral FTA between Panama and the United States.

Some Canadian companies have already established a strong investment presence in Panama. Scotiabank, for example, is now the fifth-largest commercial bank in the country. SNC-Lavalin is also active, and Export Development Canada recently opened a regional office in Panama City.

Canada is also poised to play a very prominent role in Panama's mining sector. Toronto-based Inmet Mining is developing a copper mine proposal with an investment valued at \$4 billion Canadian. This project is now under environmental review by the Government of Panama.

In June of this year Minister of International Trade Ed Fast welcomed Panama's Minister of Industry on an official visit to Canada to celebrate the first direct flight from Panama City to Toronto by Panama's Copa Airlines. Copa is now flying four times per week between Panama and Toronto, and we anticipate this engagement will facilitate travel and tourism between the two countries.

Canada has also improved its visa services procedures in Panama to facilitate visa issuance for legitimate travellers, which will make international travel and people-to-people ties easier between the two countries.

Panama is an established and growing market for Canadian workers and exporters. Canada is among the largest foreign investors in the country, just at a time when the country is becoming more appealing as a destination for investors from around the world. Strengthening our partnership and interactions with Panama is a solid approach to build on Canada's presence in the region. It will support the creation of new opportunities for Canadian exporters and

investors, giving Canadian workers and businesses a needed competitive boost in the market.

Thank you very much. *Je serais très content de répondre à vos questions dans la langue officielle de votre choix. Merci.*

• (1130)

**The Chair:** Thank you very much for that snapshot of our free trade agreements. It gives us an idea of where we're at.

We'll open up for any questions the committee might have, starting with Mr. Chisholm, for seven minutes.

**Mr. Robert Chisholm (Dartmouth—Cole Harbour, NDP):** Thank you, Mr. Chairman, and thank you to the presenters.

Seven minutes doesn't give me nearly sufficient time to inquire more. I'm fascinated by the work you've been doing. We'd certainly like to know more. Maybe through the good graces of the minister we could agree to meet at some other time so I could learn more about the details of your projects.

Where to begin? Let me start with Panama and I'll share my seven minutes with my colleague, Mr. Ravignat.

I think I heard you say, Madam, that there was an agreement on labour and environment with respect to the ILO standards protocol. I think that's really good. Maybe you could explain how that's being monitored, and if need be, what any enforcement mechanisms might be to ensure that Panama is fulfilling those requirements.

**Ms. Kirsten Hillman:** Thank you for the question. I'd be happy to give you the information.

The free trade agreement itself has a chapter on labour that is a general commitment to the labour principles under the ILO convention to which Canada and Panama are both parties. At the same time as we concluded the free trade agreement, we concluded the labour cooperation agreement.

Under the labour cooperation agreement, the parties agree to abide by the commitments under this international treaty. There are also monitoring mechanisms in the labour agreement, and a mechanism for follow-up, let's say, and consultation if there are concerns that the labour standards are not being met.

It's a graded system, such that at the most extreme end of this monitoring system there is the possibility for monitoring and decision-making—I would say adjudication, but maybe that's a bit strong—including the imposition of what are called monetary assessments. Monetary assessment is a financial contribution that the country deemed to not be abiding by the commitments would be required to pay into a fund. The fund would be held in trust to be disbursed for purposes of promoting abiding by labour standards or labour programs.

That's an overview of the agreement.

**Mr. Robert Chisholm:** Thank you.

I'll ask Mr. Ravignat to continue.

[Translation]

**Mr. Mathieu Ravignat (Pontiac, NDP):** The committee meetings of November 3 and December 6 focused on tax havens and Panama, more specifically in terms of the laundering of drug trafficking money.

A follow-up request was made. We requested a letter or some dialogue, at least. We haven't received an answer yet for the December 6 question. As for November 3, the minister wrote to his Panamanian counterpart and we were told that no answer has been received yet.

Since I am new on the committee, perhaps I do not have all the information. I am wondering whether there has been any follow-up and whether any progress has been made.

• (1135)

**Mr. Neil Reeder:** I will take note of the hon. member's question, since I don't know whether we received a formal reply from Panama. But I will look into that and let the committee know the answer or the status.

However, within the OECD, we have seen that Panama has started to do what is necessary to move from the grey list to the white list, so to speak. A great deal of progress has been made. Let us remember that Panama signed 11 tax information exchange agreements and it signed an additional tax information exchange agreement. So it entered into 12 international agreements, including a tax information exchange agreement with the United States.

Based on the OECD criteria, Panama has concluded the minimum of 12 agreements in order to be recognized as a country that is taking the right steps to address questions about the movement of money and tax information exchange programs.

So Panama has come a long way. We communicated with the Panamanian government and expressed our intent to also sign a tax information exchange agreement. There are good things happening, but I am going to come back to the letter.

**Mr. Mathieu Ravignat:** Do any of those 11 agreements deal with drug trafficking and money laundering?

**Mr. Neil Reeder:** I cannot say what's in those types of agreements. It is not really my area of responsibility, but I have to tell you that, based on what I have seen, the OECD representatives were pleased with Panama's progress over the past year.

I think they are on the right track. But we still have to acknowledge that, because of its location, Panama is also a conduit for cocaine and money from South America all the way to North America. That's a given. At the same time, we are working with them bilaterally to move ahead with plans against crime and drugs in Central America, including Panama.

[English]

**The Chair:** Thank you very much.

Mr. Keddy.

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

Welcome to our witnesses.

I want to start by keeping most of my remarks based to Panama and to Jordan, with respect to Mr. Macartney.

I would like to say to my colleagues across the way that when we get a chance to travel as a committee you'll get to meet our trade officials on the ground in various countries around the world and you'll really be able to better understand their understanding of the countries they are in, and the great work they do on behalf of the Government of Canada.

I did get to cut a ribbon in India, but I only got to cut that ribbon because of all the background work that the international trade people and our officials had done on our behalf.

With that segue, I'll go back to Panama primarily. It's part of our Americas strategy. It is not only a transit country for much of the Americas, but it's also a transit country for 5% of the global trade that is traded around the world. So the future of Panama should be terrifically positive and strong. The fact that they're managing to keep a GDP at 7.5% in these tough economic times I think is even more incentive for us to get this free trade agreement to the House and through the House.

Mr. Reeder, my question for you is on the future of Panama. When do we expect to see the final twinning of the Panama Canal, which is a huge project, and how much will that further advance their ability to carry a huge proportion of the world trade?

**Mr. Neil Reeder:** The Panama Canal project is about a \$5.5 billion expansion. Basically, what they're doing is deepening the canal further to allow it to take bigger container ships.

Since it was developed, of course, the volume of containers and the size of container ships has grown significantly, and the big, big ships have to go down around Chile, around the bottom of South America rather than through the canal, because of limitations on size. This expansion will generate a tremendous increase in flow through the canal.

Canada is one of the major users of the canal, of course, because of goods transiting the canal coming up, for example, from Asia across to Atlantic Canada. In that respect, we're very interested in the canal expansion. The focus is primarily to allow it to take the latest container vessels through the canal, transiting without risk, because right now it's still quite small.

We were there a few months ago. Essentially, it's a parallel canal, which will be much, much deeper, through which they'll divert the big vessels.

On the timeline, I can't say. I'd like to say three to five years, but I'm not certain. However, what they're doing is very impressive. It's also very impressive that since Panama retained sovereignty over the canal after the end of the Panama Canal treaty with the United States, they're actually increasing the revenue significantly above what was done under the United States. It has become a kind of point of national pride that they've managed the canal well and are making more money out of it than was the case under the U.S. administration. But it certainly is a very impressive project.

• (1140)

**Mr. Gerald Keddy:** Thank you very much.



The other point I'd like to make for my opposition colleagues is that when we bring these trade agreements to the House and you have a chance to question witnesses on behalf of your party, you have to realize we already are trading with Panama, we're already trading with Jordan. What we're trying to do is put clear and transparent rules in place that will allow that trade to grow in a responsible fashion.

I'll give you a for-instance. I have a small company in my riding in South Shore, Nova Scotia, that manufactures oil and gas equipment. They are manufacturing equipment right now in Mexico, so they can avoid an 18% tariff in Panama. If we sign this deal, they'll be able to make 18% more on their investment on a product that we're building in Canada and shipping to Panama.

I know I'm running low on time.

**The Chair:** You've got a couple of minutes.

**Mr. Gerald Keddy:** I've got a couple of minutes. I'm doing better than I thought.

I want to switch over to Jordan for a moment, because much of what applies to Panama would also apply to Jordan, as a transportation hub, as a fairly modern country in the Arab world, and with huge potential, not only for Canadian investment but for investment worldwide. When the Americans signed their agreement with Panama, their two-way trade with Panama increased 200%. Can we expect that same type of increase with Canadian trade...sorry, to Jordan?

No wonder you were looking at me. Hang on, wait a second.

When they signed their agreement with Jordan, their two-way trade increased by 200%. I would expect we should be able to look for the same type of increase in trade between Jordan and Canada.

**Ms. Kirsten Hillman:** Thank you for the question.

Of course I'd like to say yes, absolutely.

**Mr. Gerald Keddy:** And I'd like you to say yes.

**Ms. Kirsten Hillman:** These things are challenging to predict, but hopefully we'll do better. I think, though, what is significant is, as I mentioned in my opening remarks, that this is a country that has had very high tariffs and some extremely high peaks, so we anticipate the benefits from those significant drops in tariffs to have quite an impact on our trade. I think the consultations we've done with stakeholders in the areas that are of interest to us demonstrate that they're ready to take further advantage of these opportunities. Unfortunately, none of us can predict exactly how that will take place, but I think conditions will be good and right for the trade to increase.

**The Chair:** You have thirty seconds for a question and an answer.

**Mr. Gerald Keddy:** In thirty seconds, I can't clear my throat.

**The Chair:** Mr. Easter.

**Hon. Wayne Easter (Malpeque, Lib.):** Thank you, Mr. Chair.

Thank you folks for coming.

I too want to start, Ms. Hillman, with the labour cooperation and environmental agreements. I think one of the concerns many Canadians have is that in a lot of the countries we enter into trade

agreements with, our business costs are substantially higher. Whether it's in terms of the wages themselves, health and safety, pensions, or a whole range of things, we find ourselves competing against a low-wage economy. On the other hand, we have environmental regulations that are all put in place for the right reasons, but because we're competing with a country that has low environmental standards, we sometimes end up really exporting our jobs to that low environmental regulatory economy. So we lose the business here, but we don't do anything for the environment, because they pump the crap into the environment anyway.

So I'm wondering what authority there is under these labour cooperation and environmental agreements. Is there any authority the way there is under the trade agreement itself, or is it just nice wording?

Secondly, how do the labour and environmental agreements that we establish compare with the labour and environmental part of the agreements that the U.S. has? I understand theirs are not so much side agreements as parts within agreements. I could be wrong on that. Could you answer that?

• (1145)

**Ms. Kirsten Hillman:** I'll start with the premise of your question, which I think is quite right. The policy motivation behind concluding these side accords on labour and the environment in our bilateral free trade agreements is precisely that. There is more than one motivator, I suppose, but one may be ensuring that investment isn't attracted and business isn't attracted to a market that has either lower environmental standards or less stringent labour requirements.

**Hon. Wayne Easter:** If I may just interrupt for a second, then how do we enforce that?

**Ms. Kirsten Hillman:** In the labour side accords, as I was mentioning, the standards are set in accordance with the ILO convention. There is a graded system of consultation that at its most serious level is the striking of an assessment panel, and the allegation of non-compliance with the labour standards is assessed. It has the authority to render a judgment requiring monetary assessments to be paid by the country found to be not in compliance. So that's a financial penalty.

The financial penalty—and I'll check the figures for you—I think is up to \$15 million. That money, then, is put into a fund and the fund is used to promote the increase in labour standards or to address the specific problem that was identified by the panel.

**Hon. Wayne Easter:** On India, you mentioned in your document here that the free trade agreement between the two countries has the potential to boost Canada's economy by \$6 billion to \$15 billion, creating jobs and prosperity for Canadian workers and for businesses of all sizes in every corner of the country. Do you have any analysis to back that up that has the figures in it? Can that be forwarded to the committee at some point in time?

There's another thing I always run into with India. If Ed were to lose his suitcase flying with Air Canada, we're dealing with a call centre in India. Where do those call centres come into the picture in terms of the calculation of trade figures?

**Mr. Don Stephenson:** We did an econometric study in the run-up to the agreement to launch the free trade negotiations with India. That joint study is available to the committee and can be provided. I think it's also on our website.

So yes, we have an analysis to back up those numbers, but I want to make the point that these are theoretical econometric studies. They are projections. What really happens depends on real Canadian companies taking advantage of the opportunities after it's over. I guess like Kirsten, I'd like to say that these are absolutely accurate assessments and predictions, but they can't be.

With respect to call centres, they would have been captured in our data on services trade, and in that sense they would have formed part of that estimate.

• (1150)

**The Chair:** Thank you, Mr. Easter. We'll move on to Mr. Holder.

**Mr. Ed Holder (London West, CPC):** Thank you very much, Chair.

I'd like to thank our guests for being here today. Mr. Stephenson, it's great to have you back to our committee.

It's rather interesting when I think about Jordan. I think since I've been on this trade committee, for the last three years, we've had some seven committee meetings on Jordan, and we were almost there, quite frankly. The agreement was signed, it came to committee and then it went back to the House, and regrettably, it was stalled. What I find interesting about its being stalled is that I thought around the table in the last session there was general thought that if you can't do a Jordan deal—I think at some point we called it a no-brainer, in the sense that it was so clear and so advantageous to do something like Jordan—if you can't do that kind of trade deal, how can you do any deal. It seems to me—and I say it respectfully to all of my colleagues as we go through this process again—that it is clear that this makes some sense.

Mr. Keddy talked about why it's important to put rules in place with companies around the world. Clearly, we already trade with every country around the world. It does two more things, though, and I'd like to expand on Mr. Keddy's comment. One is that beyond putting rules in place, it increases trade both ways. And secondly, from a competitive standpoint it reduces tariffs so that it makes it easier for us to engage in business both ways. From our standpoint—certainly from my standpoint—it certainly made a tremendous amount of sense.

Ms. Martin, if I could ask you, please, you mention in your comments the global economic slowdown challenging Jordan's gross domestic product, that export-oriented sectors such as manufacturing and so on and the transport of re-exports had been hit hardest. Just clarify for me what you mean by re-exports. Can you clarify what exactly that means?

**Ms. Barbara Martin:** I'll start, but I may defer to the trade experts on that point.

Re-export is when a product is imported into a country, there's value added by further production or manipulation of the product, and then it is re-exported with those changes embodied in that particular product.

**Mr. Ed Holder:** But then when I listen to Ms. Hillman.... Clearly, with some \$86 million in two-way trade from our most recent year 2010, that's pretty small by any standards that you would imagine. Can you give me some sense of why it is so critical that we do this thing with Jordan? Why does it matter?

**Ms. Kirsten Hillman:** There are a few reasons why this is a strategically important agreement.

This will be only our second free trade agreement in the region; we have one with Israel. This is an economy that is important. It's a country that is a moderate and useful ally in the region.

We find that when we increase economic ties, and I think actually your example of re-export is a very good one.... An import and re-export situation is where you have companies that are working together. It's not just a company that's producing a product and selling it to the citizens of another country, but you have a value chain, or a transformation relationship. That requires an integration of the business communities to a certain extent, the building of relationships. So strategically, having our companies build their working relationships with countries in the region is a very positive thing that goes beyond simply the benefits to the Canadian economy of selling more of product X, let's say wheat or some product that is going to be used in its final form.

Those would be my two answers: it's an important country in the region, and the agreement itself will give us a platform for not only selling more products, but building tighter business relationships.

• (1155)

**Mr. Ed Holder:** Mr. Stephenson, a question that has come up—

**Mr. Don Stephenson:** I'm sorry, Mr. Chairman, but could I expand on that answer a little bit?

**The Chair:** Yes, sure, please.

**Mr. Don Stephenson:** With respect to the government's trade policy or trade negotiations agenda, I would certainly agree that Jordan, in terms of its size, would be relatively small and relatively low on that list, but I think you have to put it in the context of the broader agenda. With respect to our trade, obviously the United States is still job one. It's still 75% of our trade, and that trade is largely either tariff-free or at least has very low tariffs, so the issues are really policy and regulatory differences. That's why the government has focused on the Regulatory Cooperation Council and the border initiatives to try to address some of those issues.

With respect to our trade with the U.S., however, our share of the U.S. market is in decline. That's because others have become more competitive, so it's perhaps good news, but we are challenged in our major markets. So diversification of our markets is job two and becomes increasingly important in a globalized economy.

With regard to diversification, we focus on the major prizes, the major markets, the major emerging markets, like India, and we have established dialogue with China and Brazil that hopefully will produce results. We're negotiating with Europe, and we are in discussion with Japan. So those are the major prizes and everyone is after them.

The next groups of negotiations are what I like to call "keeping up with the Joneses". The Europeans or the Americans—typically, the Americans—are doing a deal and our exporters are at risk of losing their markets in those countries because of the tariff advantage of the U.S. or the EU. So that's just trying to keep our markets.

The third group is those negotiations where there are foreign policy objectives as well. I think Kirsten has described Jordan in that last category.

**The Chair:** We'd like to offer you another round, and perhaps there will be time, but not right now, Mr. Holder.

Madame Pécelet.

[*Translation*]

**Ms. Ève Pécelet (La Pointe-de-l'Île, NDP):** Thank you, Mr. Chair.

I would like to thank the witnesses for joining us today.

Could you tell me what specific measures, what monitoring mechanisms are in place to ensure compliance with the agreements, especially when it comes to labour rights? We have been talking about an independent review panel. Who is responsible for striking the panel? Who is going to be on the panel? Why is there no financial penalty in cases of non-compliance?

There are several parts to my question. Could you tell me why we have not adopted the American approach, under which those measures are apparently enshrined in the enforcement provisions of the free trade agreement with Panama?

**Mrs. Kirsten Hillman:** First, under the labour agreement, the panel is formed according to a mechanism that is already in the agreement. Once the agreement is in effect, the mechanism in the agreement is used to create the panel, based on need and after a request has been made. There is a dialogue first, followed by this process, if necessary. We have not negotiated it under the agreement because we have always negotiated agreements this way. We feel that it is very useful to discuss those topics with labour and environmental experts, rather than combine them with obligations that are strictly related to trade.

As I said earlier, the treaty refers to those agreements and it specifies that we are going to sign them at the same time. That means that they are philosophically related. We think that it is actually better to apply individual systems that are not necessarily related to trade and that ensure that those two areas of activity are protected.

• (1200)

**Ms. Ève Pécelet:** Could you tell me what specific measures, what mechanisms are used in Canada to ensure that Canadian businesses in the field comply with labour and ILO legislation?

**Mrs. Kirsten Hillman:** Under those agreements, the obligations apply to the laws of the countries involved and to everything that happens in those countries. This does not affect Canadian businesses

only; it is much broader. Panamanian and Jordanian companies must meet those obligations. That is being ensured through verification and regulatory systems, as well as the monitoring mechanisms in those countries.

[*English*]

**The Chair:** Thank you.

Mr. Shipley.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, Mr. Chairman, and my thanks to the witnesses for coming. I look forward to continuing the discussions, to ensure that these significant trade documents are to the benefit of Canada.

I believe that we engage in these discussions for a win-win. That's how an agreement should work and be sustained. We need to work within the framework so that it will continue to be a win-win for whatever country we've signed the agreements with.

Ms. Martin, in respect of your presentation on the government's privatization efforts in telecommunications, transport, and other sectors, this has been an ongoing initiative since 1999. There continue to be concerns about poverty and unemployment and the limiting factor of oil as well as water. How has privatization helped us to move ahead in the discussions with Jordan?

**Ms. Barbara Martin:** You're touching on the reform agenda that the Government of Jordan, under King Abdullah, has been putting in place. Clearly, a reform agenda of that sort is complementary to any free trade agreement, because it creates a better economic and political environment for doing business. It's still a constitutional monarchy in Jordan. It's not a democracy as we experience it here in Canada. The king has explicitly asked the new prime minister he appointed in February to undertake a series of recommendations, including establishing a constitutional court, limiting the power of the government to create temporary laws, and lowering the age limit for elected officials.

**Mr. Bev Shipley:** We're thinking about the effects that it has in being able to negotiate on a trade agreement because of the privatization, now that you have the privatization of them in terms of industries, the employment opportunities that are there in terms of for-profit. Now it would seem to me that it would relate to a very good scenario for the steps forward with an agreement.

Ms. Hillman, I'll just go to your comments. You said that upon entry into the agreement, it will eliminate tariffs on over 99% of recent Canadian exports. Key Canadian sectors such as pulses, frozen potato products, and beef will benefit from duty-free access. It's here on page three.

How do you predict that type of a benefit? This is strictly talking about agriculture right now. In Canada agriculture is one of the main industries we rely on, and its sustainability throughout, other than the supply management. We require markets. How do we predict a benefit in that comment?

•(1205)

**Ms. Kirsten Hillman:** What we do in leading up to and then during the course of negotiations is that we have a lot of fairly detailed consultations with the sectors of the Canadian economy that are interested in that market and are interested in expanding into or entering into it. So in that situation it would be the Department of Agriculture through its consultation mechanisms that would be talking to the agricultural constituents in Canada specifically about those products that they export, that market, and projecting into the future where they might be interested.

Usually these industry associations do have marketing plans and they do work with their members to decide where they would like to focus their efforts for export trade. Often, as I understand it, with the Department of Agriculture they work a bit hand in hand in saying we're interested in, for example, pulses in the Middle East, which are obviously a very important export. So they will say that Canada is really becoming much more productive in that area. Where are the markets? Where are the lucrative markets? Where are the markets where we're going to have the best access? And our free trade agenda and these market development objectives can work hand in hand.

**The Chair:** Thank you very much.

Mr. Reeder, very quickly.

**Mr. Neil Reeder:** It's just a follow up, sir.

In relation to the exports, if you looked at our agricultural trade with Panama, the exports from Canada are about \$100 million in value. So you're looking at tariff reductions that would affect that sector.

What are we exporting to Panama? Pork, lentils, peas, potatoes, fats, and vegetable oil, probably canola. So in that respect we're going to have an automatic advantage for Canadian exporters if they're going to have tariff reductions, because in fact half the trade with Panama is agrifoods. That's an important market, as is all of Central America.

**The Chair:** Thank you very much for that clarification.

Now we'll go to Mr. Côté.

[*Translation*]

**Mr. Raymond Côté (Beauport—Limoilou, NDP):** Thank you, Mr. Chair.

Thank you for making yourselves available to answer our questions.

Questions are rushing through my head, but I am going to try and make the most of my five minutes. I am more concerned with two questions at the moment.

Based on the consultations I had in the spring coupled with my responsibility for small businesses, I have drawn some conclusions. When it comes to free trade mechanisms, small businesses are often at a disadvantage compared to larger businesses, especially in terms of infrastructure, services and processes. Larger businesses have the resources to overcome those challenges. That is one of the things I understood on Monday, as I listened to the testimony of representatives from four small Canadian businesses.

I would like to know whether the free trade projects currently being negotiated include mechanisms specifically designed to help small businesses to overcome those challenges. Things can be tough for a business owner who has only a few employees, no experts and no one to take care of the paperwork and get things rolling. Those constraints can most definitely be an obstacle to entering any particular market.

**Mr. Don Stephenson:** That is a broad question. I will try to answer it and my colleagues can then add to it.

It is absolutely true that small and medium enterprises need more support because they are less able to have people on the ground in all the markets around the world.

In terms of our market expansion—I am specifically referring to the diversification of our markets, including into Asia, into Latin America and even into Europe—it is interesting to note that small and medium enterprises actually make up a larger percentage of our market expansion than large enterprises. That shows how important it is to help small and medium enterprises.

That is why we started the Canadian Trade Commissioner Service around the world that helps small and medium enterprises in particular. That is why we are trying to expand and develop our network of offices in the markets where we are seeing the most significant developments, such as India, China and so on.

•(1210)

**Mr. Neil Reeder:** I just want to say that there are also regional offices to assist the private sector in Canadian provinces.

**Mr. Raymond Côté:** Okay, thank you very much.

My second question has more to do with agricultural commodities, which are affected by various factors.

Over the past few years, we have often seen massive speculation in commodities, such as wheat and other agricultural products. I am thinking of pulses, among other things, that are an open market for Canada especially with Jordan, India and I assume Panama.

Is there anything in place? I am concerned about the social consequences for those countries. Our country can be a cause of destabilization. Of course, Canada will remain a major agricultural player, but it is not the only player and we cannot solve the problem alone. Are there at least mechanisms in place to monitor, measure and try to counteract this type of destabilization? Aren't you afraid that, with increasingly more free-trade agreements, speculation in agricultural commodities will intensify?

**Mr. Don Stephenson:** I will try once more to answer your question. Hopefully, someone will come to my rescue.

In the multilateral negotiations at the WTO in Geneva, Canada, like most countries in the world, places the highest priority on the reduction of agricultural subsidies because of the major implications they have on everyone. They distort markets. They also have very negative consequences on the poorest member countries of the WTO. In that sense, Canada is aware of the matter in its negotiating positions.

In bilateral negotiations, I don't think the implications for speculation are as significant, for one thing. For another, certainly no mechanism exists, at least to my knowledge, for tackling the matter directly.

**Mrs. Kirsten Hillman:** There is a procedure in the agreements that is followed if the reduction in tariffs causes a country an internal problem. Normally, we use it at the beginning or as market conditions require. So there is a mechanism to analyze the difficulty, a safeguard mechanism as it is called, that tries to protect internal markets for a limited period and under certain conditions. It was specifically created for this transition period so that internal markets can evolve appropriately or adapt to the new import reality.

**Mr. Raymond Côté:** Excuse me, is the mechanism...

[English]

**The Chair:** Mr. Côté, your time has gone.

[Translation]

**Mr. Raymond Côté:** Fine, Mr. Chair.

[English]

**The Chair:** Mr. Shory.

**Mr. Devinder Shory (Calgary Northeast, CPC):** Thank you, Mr. Chair.

Thanks to the witnesses as well.

We on this side of the table, the government, are very clear: Canadians understand that trade is fundamentally a kitchen-table issue, preserving jobs and helping people put food on their tables and provide for their families. The benefits of international trade for Canadian workers and families are very clear. One in five jobs is directly or indirectly related to trade activities. We also understand that, with trade, prices for goods and services go down and salaries, wages, and the standard of living go up.

Now, Canada is a trading nation that benefits from open and rules-based trading, and considering that, of course, and with that in mind, our government has finalized free trade agreements with nine countries in less than six years, more than any previous government in this country.

My question is twofold, as a matter of fact. One, with the global recession and the continuing downturn in the United States, how important is diversification of our markets and what are the risks if we do not pursue that? As the second part of my question, I would like you to expand on what our government has been doing to send the right signals to the world about the importance of free trade and open markets.

Please give me some time to talk about India as well.

• (1215)

**Mr. Don Stephenson:** With respect to the recession and the contraction of the U.S. market, I referred to it earlier, to the fact that our share...at least "share" is not the only way or perhaps the best way to measure your market... But our competitiveness in the U.S. market is certainly under some pressure.

Given Canada's heavy dependence on trade, the way I like to express it is that Canada represents 0.05% of world population and 2.6% of world trade, and the difference between those two numbers

is our high standard of living. So clearly, diversification is still job two, but it is increasingly important. The risk is our heavy reliance in this economy, a developed country with only 34 million consumers.... If you're only producing for the Canadian market, you're probably finished for the year at some time in March. We need world markets.

With respect to the signals we have sent to the world, first of all, the world has noticed that Canada has taken a very aggressive approach in trade, particularly in bilateral trade negotiations. The minister has commented that we are now negotiating with over 50 countries, and there has never been such an active trade negotiation agenda in Canada.

As well, other signals to world markets have also been noticed and commented on in the World Trade Organization report on the activities of members: Canada's unilateral elimination of tariffs on inputs. We've established a tariff-free zone on industrial inputs, reducing the cost for our businesses and making their exports more competitive. That's what I would point to.

**The Chair:** Very quickly, Mr. Shory. You have one minute.

**Mr. Devinder Shory:** Thank you, Mr. Chair.

I was born and raised in India, and this question will be for Mr. Macartney because he has been working in that region. Even though India has on record a population of 1.2 billion or so, which is the second-highest population in that region, I believe that is not the current census, that it was done some time ago. It seems that very shortly, if not as of today, India will be the most populated country in that region.

Considering that and also the diaspora of 1.2 million Canadians who are here from the Indian region... First of all, I thank you very much for working so hard in that region and bringing about good results that will benefit not only India but Canadian people here as well. Quickly, the question is—

**The Chair:** You had a minute. You had a chance for a question but you gobbled it up.

Just before I let Mr. Cannan on the floor, we wanted to say thank goodness he's here. He had an accident with a bike on the way home last evening and injured himself quite badly but he's still here fighting it out.

• (1220)

**Mr. Ron Cannan (Kelowna—Lake Country, CPC):** I got hit by a car, and the good news is the car is okay.

**The Chair:** The car is in great shape. We're glad to hear that.

**Mr. Robert Chisholm:** But the car won.

**Mr. Ron Cannan:** Thank you very much, and I appreciate that kind introduction, Mr. Chair.

To our witnesses, it's good to see you back, Mr. Stephenson and your team.

I just wanted to pick up briefly before a second question. Mr. Côté made a good comment about SMEs and the importance of the trading and the economic aspect. I know small business is the economic engine that drives our economy. Locally I have been able to use the trade commissioner office in my riding. Maybe you could expand on that a little bit for the committee and explain to Mr. Côté and some of the newer committee members about the trade commissioners' role and how they can help Canadian businesses and work with your offices to export to our many emerging markets.

**Mr. Don Stephenson:** We're having some difficulty deciding who should try to address the question, since none of us really work in the trade commissioners service. It might be useful to the committee, particularly for new members, to have a briefing from the trade promotion side of the department to explain—

**The Chair:** I believe that will happen next Tuesday for the committee.

**Mr. Don Stephenson:** What an excellent idea, Mr. Chairman.

**Mr. Ron Cannan:** I'll save that one till next Tuesday. That's great, because I think it is a very important element to help our small-business sector. Ultimately, as a government that's our goal around the table, to grow our economy and create jobs locally.

Looking at your teamwork, Mr. Stephenson, in the WTO and some of the challenges you've been facing at the table there—I know they're having an emergency meeting in December to try to keep that on life support—could you expand on why these bilaterals are so important for Canada in creating opportunities for growth and jobs for Canadian companies?

**Mr. Don Stephenson:** When I speak about diversifying markets for Canadian exporters, it has been Canada's tradition to have as its first priority, its preferred outcome, a multilateral agreement, and therefore we have always put the priority on the WTO. We were one of the most aggressive and effective countries with respect to the establishment of the WTO in 1995 because we see that as very much in our interest. The WTO is our FTA with most of the world. It provides for predictable and transparent rules, and most especially it provides for independent arbitration of disputes.

However, with regret, it has not been possible after ten years to make progress to come to a conclusion in the current round of negotiations, the so-called Doha round, and we unfortunately do not predict success any time soon. In that context, Canada found itself to be losing ground to other traders who are more involved in a bilateral set of negotiations and in the government's trade policy strategy, which is called the global commerce strategy. It's now in the fourth year of a five-year plan. It's on the website if you can't get to sleep one evening.

Basically it describes what I've just said and comes to the conclusion that Canada should stop falling behind other countries and get active in the bilateral game. This is not to say that we have less of a priority on the WTO and on multilateral trade and trade agreements. If there is any prospect for advancement in Geneva on those negotiations, Canada will be there, but in the meantime the government decided to significantly increase its effort and its resources in bilateral negotiations and to catch up.

**Mr. Ron Cannan:** I appreciate that detailed explanation. It is very important, as you said, to help our growth and job strategy.

Speaking about opportunities to grow, not necessarily through bricks and mortar, what has made our world such a global village is availability through air service. Could you expand on some of the air service agreements and how that is helping global trading? I represent a community with the tenth-largest airport, Kelowna International Airport, and it has been a big economic generator for the whole southern region of the Okanagan Valley. Copa Airlines was mentioned. They have a direct-line flight to Panama. Could you speak about some of the air service agreements we have signed and their impact on our global commerce strategy?

• (1225)

**Mr. Don Stephenson:** Perhaps the chairman is about to say you've also invited Rob Ready, who is our chief air negotiator, to address the committee and he can take you through his negotiating agenda in detail.

The chief air negotiator is situated inside the trade policy and negotiations branch of the Department of Foreign Affairs and International Trade. This makes the point, I think graphically, that we link our air connections with our trade relationships with other countries. In setting that agenda, we take into consideration the commercial interests of our carriers, first of all, and second of all our airports and the related stakeholders in respect of air transportation services. But we also take into consideration the larger impact in terms of trade more generally. For example, our discussions with India recently concluded, expanding our existing agreement with India. Those negotiations were very much in the context of the broader set of negotiations on trade with India.

**The Chair:** Thank you very much, Mr. Cannan.

Mr. Chisholm, you have five minutes.

**Mr. Robert Chisholm:** Thank you.

I have a specific question with respect to Panama, but on the point of the multilateral trade, I hope the government and the department have not backed off on understanding how important multilateral trade is. In one of my earlier questions I was thinking about mentioning the fact that we're kind of trotting around trying to beat the U.S. or trying to get in too on these deals. While that's all great, I think it's in the best interest of the global trading community if we have a multilateral deal. So I would encourage you and your department, and certainly the parliamentary secretary and the minister, to not let off on efforts to reach a multilateral deal, understanding how difficult that's been.

On Panama, Madame Hillman, you said 99% of tariffs have been taken off, trade barriers. I guess my question relates to other trade deals—for example, CETA with Europe. Some people would suggest that there are very few barriers left in most of the areas and ask what we are gaining. I guess my questions then to you are these. First, what is the change in the trade barriers and what were they before we negotiated these? Second, have you done any modelling to estimate what the economic opportunity is going to be over the next five to ten years for Canada?

Thank you.

**Mr. Don Stephenson:** First of all, with respect to the importance of the multilateral trade negotiations, it is certainly still the policy of the Government of Canada to support multilateral trade negotiations. As I said earlier, if there is movement, Canada is there and will be there. We still understand that there are some things you can only get in multilateral trade negotiations, and serious agricultural trade reform would be one of them. Strengthening of rules for what we call trade remedies, anti-dumping and countervailing measures, you can't get that bilaterally. It's clearly the best for business if there's one set of rules rather than what's been referred to as a spaghetti bowl of rules of bilateral agreements. Finally, the WTO is the most effective place for developing countries, particularly the smallest developing countries, to negotiate to use the leverage of their numbers. In the mandate for Canada's position in the WTO, we are asked to make a contribution to development through trade. So for all of those reasons we understand that multilateral trade is still important, that those negotiations are important.

I will leave the tricky question to Kirsten.

• (1230)

**Ms. Kirsten Hillman:** You'll notice I got out my facts and figures. I have a lot of facts and figures, so I will try to highlight some of the analysis we've done on both the specific reductions and some of the benefits we see.

I have a document here that you might find interesting, where we go through some of the benefits region by region in Canada. So let me take you through it. I'll start with the west. That is how my document's set out.

Once the agreement is implemented—there is about a 15% tariff on wood products, and this isn't strictly speaking a western issue—our forest and paper industries will see a 15% reduction. On oils and fats, they have tariffs as high as 30%, and they will be completely eliminated. In our machinery and machines industrial sector, information and communication technology, and some power-generating machinery, tariffs up to 50% in Panama will also be eliminated.

We will see the elimination of tariffs of between 15% and 40% on pulses and cereals. Precious stones, metal, iron, and steel also have tariffs of up to 15%, which will be eliminated. With potatoes, there is a large gain for us. There are Panamanian tariffs as high as 81%, which will be eliminated. Frozen french fries will no longer face Panamanian tariffs of up to 20%.

**Mr. Robert Chisholm:** Madam, excuse me, our time is almost up. I wanted the kind of the economic modelling you would have done.

**The Chair:** It's not almost up, it is up.

If you have anything on that, I'll entertain a quick answer.

**Ms. Kirsten Hillman:** On the actual projected benefits, I'm sure I have that in my binder. I'll look for it and see if we can come back to it.

**The Chair:** Thank you very much.

Mr. Hiebert, you have five minutes.

**Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC):** Thank you, Mr. Chair.

Thank you all for being here this morning. I think it's a great primer on the importance of trade and its impact on our economy.

I'd like to ask you some questions about that, but before I get to that, we've heard a couple of comments this morning. Just a few minutes ago Mr. Stephenson made the comment that Canada should stop falling behind other countries. It made me think about how earlier in the presentation Mr. Reeder said that Panama has a free trade agreement with the United States. Somebody else—maybe Mrs. Hillman—mentioned that Jordan already has free trade agreements with the EU and the United States.

So I got to thinking about our competitive disadvantage. If Canada doesn't sign these free trade agreements shortly, the EU and the United States have these agreements, so their companies can go into these countries on a preferred basis and negotiate great deals. But Canadians are being left behind. We can't compete because the tariffs are still in place for us. Is that not the case?

How would you explain to the ordinary Canadian that we have horses in this race, and right now the United States and the EU have less baggage to carry, less weight on their backs, and they're running ahead of us?

**Mr. Don Stephenson:** I'll take a crack.

It's simple mathematics. If your competitor has a lower tariff or no tariff, but you pay one, they have a competitive advantage in the marketplace and will eat your lunch.

I take the point of the other member, who commented that sometimes we also try to get ahead of the United States and Europe. For example, in respect of the Colombian market, we're very pleased to say that we have a competitive advantage now over the U.S. and they're playing catch-up. But that's the nature of the game, and it's simple mathematics.

Even a small tariff difference can be important. In the case of commodities, for example, a 2%, 3%, or 4% tariff can make a significant competitive difference when you're trying to sell into another market.

• (1235)

**Mr. Russ Hiebert:** Is it safe to say that the tariff amount, whether it's 3%, 4%, 5%, 15% or 50%, could be the margin of profit? It could be the deciding factor whether or not to even seek out business in some of these other countries?

**Mr. Don Stephenson:** I think it's safe to say that.

**Mr. Russ Hiebert:** It's important for Canadians to understand how critical these agreements are to kitchen-table discussions, as the minister likes to put it. In my community there are exporters who are wanting to get into some of these markets, and they simply can't compete because of these restrictions.

This leads me to another question: how do we get this information into the hands of Canadian companies? Of course it's covered in the national news that we're negotiating these free trade agreements. But does the department send out this information to the potential exporters in the country, telling them we've now opened up in such and such a market? It might be frozen french fries. Does somebody call McCain and say, "You might want to call up the Panamanian grocery stores and see if they're willing to take your products, because here's the latest?" Does the department do that?

**Mr. Don Stephenson:** Next week, when you're briefed by our colleagues in the trade commissioner service, you will hear how we use this service and our regional offices to identify opportunities for specific Canadian businesses and exporters. They will have information about new trade agreements that they can pass on to individual Canadian businesses.

At a macro level, we principally work through our consultations with the major industry associations—the Canadian Manufacturers & Exporters association, the Canadian chambers of commerce, and the Canadian Council of Chief Executives—so that their memberships are made aware of these opportunities.

Specific to individual negotiations, we might also have more targeted consultations. For example, in respect to the negotiations that I am leading with India, my advisory committee includes many of the Indo-Canadian chambers, business associations, to try to inform my audience of the opportunities that are available. But that briefing is mostly for next week.

**The Chair:** Thank you, Mr. Hiebert.

Mr. Côté.

[*Translation*]

**Mr. Raymond Côté:** Thank you very much.

I am going to focus on the proposed free trade treaty between India and Canada.

First, we see from your presentation that, at the moment, most of the bilateral investments are actually Indian investments in Canada. There is a real imbalance. So I am concerned about the possible repercussions. First, do we have a way of regaining some balance, of encouraging Canadian investments in India? Won't there be all kinds of financial consequences that will not be in Canada's interests?

**Mr. Don Stephenson:** First of all, I should say that our figures on Canadian investments in India are partial. Perhaps mainly for tax reasons, at least a large percentage, though we cannot say the majority, of Canadian investments in India go through a third country, generally Mauritius and Sri Lanka. So it is difficult to rely on our figures completely. As negotiations proceed, we will have to work out a way to get better estimates. That is the first thing.

Second, it gives me the opportunity to properly stress the importance of investment in international trade in the modern world of commerce. In a way, actually, trade follows investment.

Especially in a market that is so different from Canada or North America, such as China and India, it is critically important to invest so that production happens in the country itself.

Through those negotiations and the ones on the foreign investment protection agreement, which we hope to see wrapped up soon, we want to promote investments directly. This is extremely important for the competitiveness of Canadian businesses. It must be said the businesses these days are no longer just exporters. For the reasons that Kirsten explained, they import inputs, they export finished products, they invest in other countries in order to be able to produce there, they develop intellectual property in order to make use of it all over the world. So we are dealing with a much more complicated business model these days.

• (1240)

**Mr. Raymond Côté:** When you say that it goes through third countries, do you mean tax evasion?

Do we have ways to observe and understand the phenomenon over the long term, or are we missing those ways at the moment?

**Mr. Don Stephenson:** We have the ways. It is just that the sources of our information on investment data, like Statistics Canada, do not perhaps show the entire picture of our trade.

I would not like to go so far as to say that it is tax evasion. I would prefer to say that going through other countries is a more effective way of dealing with the taxes. The committee might do well to hear from an expert in that area.

[*English*]

**The Chair:** Thank you very much.

Mr. Holder, you have five minutes.

**Mr. Ed Holder:** Thank you very much, Chair.

In my first opportunity, I spoke about Jordan. I'd like to move it over to Panama if I could.

I recall the prior comments about bilaterals versus multilaterals. Mr. Stephenson, I think you've explained with pretty good rationale why if bilaterals are the only pond we can play in, then that's the pond we play in.

I'd like to acknowledge the government's position on that—very aggressive in trying to do bilaterals for the very reason that you mentioned when we spoke in terms of 75% of our trade being dependent on the United States. I live to see a day when we decrease the percentage with the United States but increase the numbers with the United States and increase them worldwide. I know that's why the Prime Minister and the international trade minister travelled throughout Central and South America fairly recently.



Mr. Reeder, I want to ask you a question if I can. You spoke about a couple of things that struck me as very interesting. In particular, you talked earlier about the importance of increased engagement with Panama, and you felt that it would be challenged because of the recent signing of an FTA between the United States and Panama. Why should it matter to us that the U.S. is there in front of us having already put that in place? I'd like you to try to put on record so that it's clear to me and to all colleagues why it does matter for us, even though it feels like a little bit of catch-up, and why it's important that we do this now.

**Mr. Neil Reeder:** I can answer that generally, but I think Don may want to extend that discussion about this question of getting into markets where the United States is not. I'm just thinking of your comments on the Prime Minister's visit to the region—for example, Colombia. Our FTA with Colombia entered into force August 15.

The United States FTA with Colombia is held up in the Congress. So there was great interest in that agreement among the Canadian investment community in Colombia and among Colombian exporters to Canada because they could see an opportunity for tariff reductions, and better access for exports in an environment where their biggest market—the United States in the case of Colombia—would not benefit from tariff reductions because of the complications surrounding an FTA. So the immediate gain in the case of the Colombian exporters was that they would have tariff-free access to Canada for a number of these exports and they were talking about easily doubling their exports into the Canadian market as the tariffs decline.

In this larger chessboard that Don manages more than I do, obviously if we're first into a market with an FTA ahead of the United States, it does give us some advantage. They may catch up. We're not really competitive in that sense, but you have to recognize that we do have certain gains from these agreements on the basis of being first in.

On the other hand, if we aren't first in, then we also have to catch up in a sense in the other Central American countries where the United States, for example, has an agreement with the CA4, Central American Four. They had that before we did. We're now concluding with Honduras; that's done. We're talking to the other three. But obviously they've already positioned themselves in those countries to focus on the U.S. market, and we have to sort of catch up a little bit.

•(1245)

**Mr. Ed Holder:** Mr. Stephenson, do you want to add a little bit to that?

**Mr. Don Stephenson:** If only to reiterate what I said earlier. We talk a lot in trade negotiations about levelling the playing field for our exporters, but you know we're evil mercantilists. If we can actually imbalance the playing field in our favour, we'll do that too. It's about getting advantage or being competitive in foreign markets for Canadian exporters.

**Mr. Ed Holder:** It sounds obvious, but I think it's important that be put on the record.

Ms. Hillman, in your comments you talked about something I haven't heard us discuss today, which is the issue of government procurement as it relates to the Panama Canal and what's going on with its expansion, which seems fairly significant. Procurement is

obviously an issue we talk about a lot these days in trade and throughout other committees. Could you expand a little and help me understand the impact of the widening of the Panama Canal, what it's looking to do, and why that matters to Canada?

**Ms. Kirsten Hillman:** As I mentioned in my earlier statement, we have a significant chapter on procurement in this particular FTA. It gives Canadian companies in construction and other sectors access to the contracts that are being let within this enormous project in Panama. We have not taken advantage of procurement opportunities; we can now consider doing that. To build upon earlier comments, we can establish relationships and business links via this kind of megaproject, which will presumably have lasting effects once the project is done and it is then in maintenance mode.

If you'll permit me to make one more comment on your earlier question—

**The Chair:** Be very quick.

**Ms. Kirsten Hillman:** Would you like me to stop?

**The Chair:** Yes, maybe we'll pass on that for right now. It's mainly because we have a notice of motion on the table that we're going to deal with today, and our time is very tight.

Mr. Easter, you're the next to speak. There are two on the speaking list, and I'll share the time to leave us about five minutes for the motion. Is that fine?

**Hon. Wayne Easter:** It shouldn't take that long. I expect government support.

**Mr. Robert Chisholm:** I wanted to ask the presenters.

**The Chair:** What would you like to ask them?

**Mr. Robert Chisholm:** Ms. Hillman mentioned a regional benefit breakdown paper. I wonder if that could be tabled with the committee along with the information she mentioned on the economic benefits. That's all.

**The Chair:** That's fine.

Mr. Easter, I'll give you a couple of minutes and Mr. Keddy a couple of minutes, and then we'll move to our motion.

**Hon. Wayne Easter:** Mr. Stephenson, several people have referred to the importance of expanding trade elsewhere and lessening our dependence on the United States. I certainly agree with that. But your document “Canada's State of Trade - Trade and Investment Update 2011”, makes it clear that the United States will remain Canada's largest trading partner far into the future. In 2010, the United States market accounted for 74.9%, which is down a little. They're estimating by 2040 it will still be 75.5%. That's 2040, well out into the future. In terms of these recent negotiations, are you expecting those figures to change?

Second to that, in the throne speech the Prime Minister set a very tight target for negotiating the Canada-India agreement. Yet Wendy Dobson, in her article “Does Canada have an India strategy?”, reported in *Embassy* this year, said that those negotiating positions are very far apart. Are we going to rush to hit the deadline and put the country in difficulty in that negotiation?

•(1250)

**Mr. Don Stephenson:** First, with respect to the importance of the U.S. market, I don't disagree with the brilliant departmental economists who put together that report.

**Hon. Wayne Easter:** Good stuff.

**Mr. Don Stephenson:** But I would note that the U.S. represents 75% of our trade, and it's an awfully long way to second place. In that regard, I think we can count on the U.S. being our most important trading partner for as far as one can see into the future.

**Hon. Wayne Easter:** Until you and I grow hair.

**Voices:** Oh, oh!

**Mr. Don Stephenson:** Is that permitted, sir?

**The Chair:** It's actually out of order. If you accelerate that answer, we'll get on to it.

**Mr. Ron Cannan:** I second that it's out of order.

**Mr. Don Stephenson:** I would like to say, however, that less than ten years ago, it was 85% or 87% of our trade. So Canadian exporters are already moving in significant, measurable numbers to diversify Canada's trade. That can't be a bad thing. Clearly the U.S. is still job one, and that's what I said.

**The Chair:** Okay—

**Mr. Don Stephenson:** With respect to a rush, well, we'll see how we do.

**The Chair:** Okay.

Mr. Keddy.

**Mr. Gerald Keddy:** Maybe a quick wrap-up, Mr. Chair, and I realize I only have two minutes. I have more of a statement than anything else.

With respect to Mr. Easter's statement, 74.9% trade with the U.S. is absolutely right. And Mr. Stephenson is absolutely right that in 2002 our trade balance with the United States was 86%. Geography, our adjacency, and a number of issues will always make the U.S. our largest trading partner. That doesn't mean that our companies shouldn't be able to diversify, and if we don't sign free trade agreements around the world, they won't be able to diversify.

The reality is... Mr. Chisholm mentioned that tariffs were really primarily non-existent and simply weren't an impediment to trade any more. Unfortunately, that is simply incorrect. You listened to Madam Hillman discuss the tariffs in Panama—15% on wood, 30% on oil and fats, 50% on machinery. I don't need to go over them again; it's on every single tariff line. We're negotiating this agreement, a comprehensive economic trade agreement, with the EU, and we're facing tariff lines on fish coming out of Nova Scotia, which is a significant export item for all of Atlantic Canada. In Nova Scotia alone we make up more than 30% of the entire Canadian fishery. We're facing tariff lines of 17% on frozen lobster, 7% on live lobster, 25% on cod loins. I mean, it's simply on and on and on.

We have to find a way to cut those tariff lines down. Every percent that we drop is one more percent of profit for our SMEs, our manufacturers, our small businesses, who are going to take advantage of these trade opportunities. I can't stress it enough.

**The Chair:** Thank you very much.

I want to thank the department for coming in and giving us this overview. It certainly gives us a good sense of where we're at with the pieces of legislation, and we look forward to having them introduced in the House, particularly Panama and Jordan. You have served the committee well. Thank you very much.

With that, Mr. Easter, you have a notice of motion, I believe.

**Hon. Wayne Easter:** Yes, I do. Do you want me to read the motion, Mr. Chair?

**The Chair:** Not really. I think we've all got it.

**Hon. Wayne Easter:** I think the motion is pretty straightforward. It was sent out, so you should have it.

**The Chair:** It was sent out.

**Hon. Wayne Easter:** The motion is pretty straightforward, Mr. Chair. It was referenced that the government has a comprehensive strategy plan. Officials at the last meeting from the Department of Foreign Affairs and International Trade, in response to a question, established that they did have a comprehensive strategy plan on how to deal with Buy American. I'll give a little bit of background.

As I indicated in the motion—

**The Chair:** We don't need a lot of background.

**Hon. Wayne Easter:** As I indicated in the motion, it was evidence presented by government officials at committee, and Mr. Holder had, I thought, asked a good question after he was finished giving me a little tuning. He asked if there was a comprehensive Team Canada approach, which is, I think, a good question. The response from the department was clearly that they have an advocacy package that's been agreed government-wide, that ministers have seen and approved and that the government is using. We have people from the Prime Minister on down speaking about this, the officials said.

I'm surprised that maybe Mr. Holder and others on the government side weren't informed about that government-wide strategy. But I do think for our efforts going forward, when we hear from Ambassador Doer, the Minister of International Trade, and other witnesses on Buy American, that the report to that strategy that the department talked about would be very valuable to us as committee members in seeing that it's coming together properly.

That's why the motion's on the floor.

•(1255)

**The Chair:** We've heard your motion. That's fair enough.

I actually think the department had a fair amount to say about this, that a comprehensive plan was in place and they described that fairly well at the last meeting, so I was a little surprised to see this. I thought maybe your microphone was out.

I'm not going to entertain an awful lot of debate on this. Mr. Keddy, go ahead.

**Mr. Gerald Keddy:** I appreciate that, and I think it does need to be said.

As has been said in the House already, the minister has been extremely proactive on this. He's been in direct contact with Ambassador Jacobson and trade representative Kirk. He has been all over this file, along with Ambassador Doer. We have a full-court press on this.

Obviously, taking confidential information from an in-depth government plan and just putting it out there to the general public and telegraphing all of our plays to the opposition team I don't think is helpful to this debate, quite frankly.

**Mr. Robert Chisholm:** There is no "the opposition" on this one, Gerald.

**Mr. Gerald Keddy:** I meant the Americans.

**The Chair:** We have a motion on the floor. I'm going to call the question.

(Motion negated) [See *Minutes of Proceedings*]

**The Chair:** The meeting is adjourned.

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