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## **Standing Committee on International Trade**

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**EVIDENCE**

**Thursday, December 1, 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'd like to bring the meeting to order. We have enough members at the table and we have our witnesses.

I'd like to thank this group for coming in. I know you've been in before, but we didn't get to hear you. This has been bounced around a little bit by committee, and I apologize for that, but things happen in the House. Nonetheless, we're pleased to have you with us.

I believe, Don Stephenson, that you are going to do the presentation, and you'll introduce the people you have with you.

This is going to be a study of a comprehensive economic and partnership agreement with India.

We welcome you to the committee and yield the floor to you at this time.

[Translation]

**Mr. Don Stephenson (Chief Trade Negotiator, Canada-India Comprehensive Economic Partnership Agreement, Department of Foreign Affairs and International Trade):** Thank you very much, Mr. Chair.

As the chair mentioned, my name is Don Stephenson, and I am the Chief Trade Negotiator for the Canada-India Comprehensive Economic Partnership Agreement.

[English]

It's my pleasure to be here today to speak on the topic of the Canada-India comprehensive economic and partnership agreement, or CEPA.

With me from the Department of Foreign Affairs and International Trade is Luc Santerre.

[Translation]

Luc is the Director of Southeast Asia and Oceania Commercial Relations.

[English]

Also with me are Eric Robinson, the deputy chief negotiator for the CEPA negotiations, and Michelle Cooper, director, services trade policy division.

As the committee will know, MinisterFast was in India from November 3 to 9 and travelled to the cities of Delhi, Ahmedabad, Pune, and Mumbai to pursue Canadian interests in key sectors. I had

the privilege of joining the minister on his mission, the purpose of which was to strengthen Canada-India trade and investment ties; to meet with Indian government ministers and advance key policy interests; to meet with Indian business leaders to showcase Canadian know-how and capabilities; to attract Indian investment to Canada; and to advance the commercial interests of Canadian businesses seeking new opportunities in this priority market.

Sectors that Minister Fast's mission targeted to generate expanded opportunities for Canadian businesses included agriculture and agrifood, where India's growing population and rising living standards present expanding opportunities for Canadian producers; infrastructure, where the Government of India has identified the need for investments of \$800 billion, including roads, bridges, railways, ports, and airports, where Canadian businesses can participate and benefit; and education, where Canadian know-how can help bridge the large gap between the supply of and demand for educational facilities and address the shortage of qualified educators. There were several other key sectors, such as energy, manufacturing, and information and communications technology.

[Translation]

Overall, India's growing economy is increasing its demand for products, services and expertise. India's economy grew by an annual average of 8.2% between 2006 and 2010—an indication that India's economy is well on its way to becoming one of the largest in the world.

Let me now provide some context for the Canada-India Comprehensive Economic Partnership Agreement negotiations, an update on where we are in the talks, and our expectations in the coming months.

[English]

Canada is pursuing an ever more ambitious array of trade negotiations with partners around the world. The agenda is set out in the government's global commerce strategy. The driver is very much the state of play or, regrettably, the impasse in the multilateral negotiations in Geneva, and the multiplication of bilateral and regional FTA initiatives on the part of virtually all of our competitors.

In short, we have dramatically stepped up our game in the bilateral arena to try to get a leg up on our competitors wherever possible and to ensure a level playing field for our businesses around the world. Since 2006, Canada has concluded free trade agreements with nine countries: the four European Free Trade Association states of Iceland, Norway, Switzerland, and Liechtenstein, as well as Peru, Colombia, Jordan, Panama, and Honduras. Many more are in the works, including a free trade negotiation with the EU, Canada's most significant trade initiative since the signing of NAFTA nearly 20 years ago.

In addition to the most ambitious pursuit of free trade agreements in Canada's recent history, Canada is expanding its network of foreign investment promotion and protection agreements, science and technology cooperation agreements, and air services agreements. The overall objective for all of these initiatives is to solidify and expand Canadian access to global markets because they will create jobs and economic growth for Canadian workers and their families.

[*Translation*]

The decision to pursue economic partnership negotiations with India is also part of Canada's broader strategy of engagement with this increasingly important country.

India is, of course, a key global market, and Canada-India relations continue to deepen and strengthen. Engagement is 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.

We are working to conclude a foreign investment promotion and protection agreement with India in the very near future. We are also finalizing the last details of the Canada-India Social Security Agreement. As Prime Minister Harper has indicated, we hope to sign both agreements as soon as possible.

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

India is clearly a priority market for Canadian commercial engagement. Fuelled by progressive liberalization since the early 1990s, its economy continues to grow rapidly, while maintaining high growth rates of over 6% even through the global economic crisis. The country has already established itself as a key player in global value chains, and its middle class has between 150 million and 250 million people, constituting a consumer market of some \$400 billion. It is projected that India will have the world's fourth largest economy by 2025 and third largest by 2050, by which time it is also expected to become the world's most populous nation.

● (1110)

[*English*]

Both Canada and India have trillion-dollar economies, and bilateral trade and investment levels have been growing rapidly, with bilateral trade doubling over the past decade. As India becomes an integral part of global supply chains, Canadian companies such as

Bombardier, Sun Life, and SNC-Lavalin have established and grown their partnerships in India, while Indian companies like Essar, Tata, and Birla have been equally active in the Canadian market.

Still, the Canada-India commercial relationship remains underdeveloped given the size of our economies, with bilateral investment at about \$7 billion and bilateral trade at just over \$4 billion last year. India is currently our thirteenth-largest destination for merchandise exports and our nineteenth largest source of imports. The potential, however, is enormous. Our two prime ministers have committed to tripling the two countries' trade by 2015 to \$15 billion.

Clearly, a free trade agreement could generate much more two-way business by dismantling the significant tariff, regulatory, and other barriers to commerce that currently limit opportunities. India continues to maintain relatively high tariffs on most imports. In 2009, India's average tariff rate was 13%, while Canada's average rate was 3.7%. In terms of products of interest to Canada, India's tariffs, for example, are as high as 10% for fertilizers, chemicals, wood products, pulp and paper, and helicopters; 30% for fish and seafood; and 30% to 50% on pulses, which currently enter the Indian market duty-free under a temporary measure but could be subject to India's high tariffs in the future.

The elimination of tariffs therefore could generate substantial opportunities for Canadian producers and exporters in a wide range of economic sectors. As well, we believe there are opportunities for Canadian workers and companies in the services sector, where 80% of new jobs in Canada are created today. More specifically, Canadian companies and their employees would stand to benefit from further liberalization of the Indian market in many sectors, including energy, mining services, financial services, environmental services, and transportation and infrastructure services, including architecture and engineering.

[*Translation*]

In November 2009, prime ministers Harper and Singh announced the formation of a joint study group to examine the feasibility and benefits of an economic partnership agreement.

In September 2010, the joint study was publicly released. The study concluded that a free trade agreement could boost Canada's economy by at least \$6 billion, increase bilateral trade with India by 50%, and directly benefit Canadian sectors ranging from primary agricultural, resource-related and chemical products to transport equipment, machinery and equipment, and services.

• (1115)

[English]

As I indicated earlier, Canada's pro-trade agenda is also driven by the need to ensure that Canadian workers and companies can compete on a level playing field. India has already negotiated several trade agreements, including those with Chile, ASEAN, Korea, and most recently Japan. They are currently negotiating with New Zealand, Australia, and the European Union, and the queue is likely to continue to grow.

So where do the negotiations stand? Following the release of the joint study last fall, the prime ministers formally announced the launch of CEPA negotiations in November 2010. Negotiating rounds were subsequently held in November and in July. A third round of negotiations is planned for mid-December.

In terms of structure, seven negotiating tables have been established, covering the key areas of the negotiation. These are: goods, services, technical barriers to trade, sanitary and phytosanitary issues, origin procedures, customs and trade facilitation, and institutional issues.

We have also agreed that other areas as identified in the joint study may be discussed in future rounds. We have exchanged trade data, tariff information, and model text. Negotiators continue to work intersessionally.

[Translation]

India typically conducts its trade negotiations with a very small team. As a result, rounds with India will be shorter, more focused and more frequent than Canada's usual model. They will consist of three- to four-day sessions every two months between now and summer 2012.

The negotiations are clearly still at a very early stage and will require a lot of time. They will also be challenging, given the differing approaches that we have in some areas.

Based on consultations to date, the economic partnership agreement negotiations with India enjoy strong support from stakeholders in Canada, including provinces and territories, and we will continue to consult with and seek advice from stakeholders as we proceed.

Our aim is to move forward with ambition to ensure a forward-looking agreement that captures our current trades and helps strengthen the Canada-India economic relationship into the future. The negotiations with India are a high priority, and our target remains to complete negotiations in 2013, as indicated in the 2011 Speech From the Throne.

In conclusion, free trade negotiations are increasingly important for promoting Canadian interests around the world and for creating jobs and economic growth in Canada.

The Canada-India relationship is critical to the prosperity of Canadian businesses, workers and their families.

[English]

As indicated by Minister Fast's visit to India, the government is committed to deepening Canada's trade and investment ties with

India. Canada has an ambitious trade negotiations agenda and the CEPA is a key element of that.

I thank the committee for this opportunity. My team and I look forward to hearing your views, which will inform our negotiations, and to responding to any questions.

[Translation]

Thank you.

[English]

**The Chair:** Thank you very much for that overview. I'm sure it has stimulated a few questions.

We'll start with Mr. Ravignat.

[Translation]

**Mr. Mathieu Ravignat (Pontiac, NDP):** I will first explain the context of my question. As you know, this government has gotten involved in the past to defend human rights internationally. You probably know better than I do that India holds the unfortunate record of the country with the most child workers. Although its government maintains that the country currently has only 10 million children under the age of 14 working, NGOs, and even United Nations, think that some 60 million children are actually working.

They work as newspaper and street vendors, restaurant helpers, and so on. They work in agriculture, forestry and even in manufacturing, especially in clothing production for the international market.

Can you tell me what the Canadian government plans to do in order to ensure that we are not doing business with companies and levels of government that are involved in child slavery?

• (1120)

**Mr. Don Stephenson:** My negotiating mandate is to continue Canada's now-traditional approach in its trade negotiations. In other words, my job is to try to negotiate a side cooperation agreement with India on work-related issues.

That being said, I want to point out that India does not have a tradition of concluding agreements on work-related issues, at least when it comes to the actual wording of its trade agreements. Therefore, we'll have to talk to India about what can be done.

**Mr. Mathieu Ravignat:** So, you are confirming that this is a matter the government will bring to the negotiation table.

**Mr. Don Stephenson:** Yes.

**Mr. Mathieu Ravignat:** Child work in particular.

**Mr. Don Stephenson:** Yes, we will discuss all the standards imposed by the International Labour Organization. I want to point out that Canada and India are already working together to promote acceptable working conditions. I know that Canada funded two recent projects with India to that end.

**Mr. Mathieu Ravignat:** What will the government do to ensure that Canadian companies doing business in India respect children's rights?

**Mr. Don Stephenson:** Canada's policy is to promote the responsibility of Canadian companies. However, it will mostly be up to the Indian government to impose working conditions on Indian and Canadian companies.

**Mr. Mathieu Ravnagat:** So, no punitive measures are planned for Canadian businesses using underage workers.

**Mr. Don Stephenson:** No, not as part of the Canada-India comprehensive economic partnership agreement negotiations. You would probably have to ask an expert from the department responsible to find out more.

**Mr. Mathieu Ravnagat:** As you know, India is dealing with a lot of corruption problems and they continue to grow. Recently, India had the 2G scam. This scandal weakened the Prime Minister's office and may have tarnished India's image abroad, especially with foreign investors.

According to the corruption perceptions index, India ranked 87<sup>th</sup> of 178 countries in 2010. When India talks about setting up an independent senior authority to fight corruption, should we be skeptical?

What impact could this independent senior anti-corruption authority have on trade negotiations between our two countries?

**Mr. Don Stephenson:** Our international trade agreements mention corruption standards. Beyond that, I think we should just keep in mind the Indian government's efforts. We should maybe even invite someone who could talk about the issue on India's behalf.

Having said that, we are aware of the efforts and multiple initiatives undertaken by the Indian government to address the issue.

**Mr. Mathieu Ravnagat:** I am going to share the rest of my time with Mr. Masse.

[English]

**Mr. Brian Masse (Windsor West, NDP):** Thank you, Mr. Chair.

During these discussions you've had, have you raised the asbestos issue or has it been raised by the Indian negotiators at this time?

**Mr. Don Stephenson:** No, the issue has not yet been raised.

**Mr. Brian Masse:** Well, is it going to be raised? What is the department's analysis about this agreement in increasing the trade of asbestos to India?

• (1125)

**Mr. Don Stephenson:** The potential impact of the negotiations on asbestos trade would be to reduce the tariff that would apply to the import of asbestos in India. The current tariff I believe is 10% and there's a potential—not a certainty, but a potential—in the negotiations to reduce or eliminate that tariff. Otherwise, the negotiations wouldn't have an obvious impact on asbestos trade.

**Mr. Brian Masse:** Okay.

**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 think I'm just looking for a little more clarification on the parallel labour agreement that Monsieur Ravnagat started to discuss. My understanding of past negotiations is that, when we put a parallel agreement with labour in place, we work closely with the International Labour Organization, understanding that domestic laws within India are India's responsibility and jurisdiction. So there are some sensitivities there.

But we look for that general application of international labour standards, the elimination and prevention of regulatory regimes that assist and abet child labour, if you will, and respect for human rights within that, including things like maternity leave and the entire aspect of labour. Am I correct? I think that if we do that it will certainly help India's situation as it pertains to eliminating and getting out of the child labour business.

**Mr. Don Stephenson:** Yes, I think you have characterized our approach correctly. What we try to do to advance the application of international standards—essentially those established by the ILO, the International Labour Organization—is to provide for sanctions where countries do not adhere to their own domestic laws and the ILO standards. In our other agreements, sanctions have included financial penalties, and the moneys that are then paid are applied to efforts to advance those issues in the country.

As I noted, this has not been India's approach entering negotiations, although their model continues to evolve. Perhaps in their discussions with Canada, and perhaps in their discussions with the European Union, which shares similar objectives with Canada, we might be able to advance this set of issues.

**Mr. Gerald Keddy:** I think it's a legitimate question. I don't think anyone is denying that there is child labour in India and that anything we can do to advance its elimination is positive. I really think that more opportunities and more trade help to eliminate some of these practices around the world.

Simply in the way that these negotiations have been set up, I think there's a pretty good broad-based support, certainly in agriculture and commodities. We understand that India has a tremendous and growing population and a huge middle class that's getting larger and larger. I've been to India—actually, along with Mr. Stephenson—and I can tell you that they can't keep up to their infrastructure needs. Literally, they're growing faster than they can produce the wastewater and freshwater systems and the roadways and highways.

There should be an absolutely tremendous opportunity for Canadian business and expertise to help not just this economy but this nation to grow, and along with that you increase living standards, and you increase every possible sector, whether that's labour rules, regulations, living standards, access to health care, all of it that automatically follows.

I understand why we would have buy-in, but my question comes back to the size of the team. Having a small team I think would aid negotiations; I'm certain it would make them much more intense. But what about the results of the negotiations being applied? I understand that in Canada we can bring it to the House, have some fulsome debate, and have that applied throughout the country, but what about the provinces in India that traditionally have been independent and fairly trade restrictive in a number of areas?

• (1130)

**Mr. Don Stephenson:** Different states have different approaches to the regulation of business. It's important to note that a lot of decisions that are critical to establishing in the Indian market are made at state level, but the obligations we are negotiating with India—the central government of India—would apply to the states. The agreement would provide for a dispute settlement mechanism, as in our other trade negotiations, so that Canadian investors and exporters can pursue their rights.

I would certainly agree that in the area of agriculture the opportunity for partnership with the Indian market extends well beyond the export of agricultural commodities and very much into systems for food handling and food processing in the Indian market. The scale of that opportunity is so large, as is the scale of all opportunities in India, that a Canadian has a bit of difficulty imagining it. They talk about something in the order of 40% of food spoiling before it reaches a market in India.

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

There are 28 states in India, right? Yes? I was just curious.

Mr. Easter.

**Hon. Wayne Easter (Malpeque, Lib.):** Thank you, Don, for I think quite a thorough presentation. There's a lot of good information in this.

In beginning, though, I do have to say that while we welcome the negotiations with India and we hope they're fruitful, we do have concerns about the amount of focus around the world and because of that—either the travel or focus, we don't know which—the government seems to be losing sight of where we're currently trading. We've found the minister disappointed and surprised three times now on Buy American and on the new fee structures on sea and air going into the United States. We're concerned that the government tends to be focusing on the potential exports in the future while we're losing ground in some of our current markets.

We want to put on the record that the government needs not to lose ground in regard to where we currently are but to gain ground in new negotiations. It's the same with South Korea. People who have come before this committee are very concerned that the U.S. is going to have a negotiation and a trade agreement with South Korea done, and we're going to be out of that market, because we're not negotiating the way we ought to be. We could lose upwards of \$1 billion worth of trade. This is especially important in the hog and beef industry. So I need to point that out in the beginning.

I want to follow up on Mr. Keddy's point about decisions being made at the state level. Do you know at this stage what the process will be on both sides? On the CEPA, we're concerned about our lack of involvement while the European Parliament is involved: what's

the process here? What's the information flow to parliamentarians in both countries? What's the ratification process expected to be?

**Mr. Don Stephenson:** As I understand the constitutional arrangements in India, the central government can take binding obligations for their states.

As for the exact mechanism, I guess we would have to invite somebody from our treaty law division or something. Perhaps Luc has some advice he can give.

But we have inquired directly with the central government about their ability to impose obligations on their states and have been given those assurances.

With regard to how parliamentarians will be engaged in the process, I can only respond for the Canadian side, and it's opportunities such as this to engage with parliamentarians on these negotiations. It's also our plan to have a very wide consultation process involving business and civil society stakeholders so that there is a maximum of transparency in the negotiations. But on the Indian side, I'm uncertain about what their processes are for engaging directly with their Parliament and with their state-level governments.

• (1135)

**Hon. Wayne Easter:** Okay.

In a DFAIT publication, an overview of India, the following challenges were referenced, among others. One was “restrictive import and investment regulations”. The second was “limitations on foreign service providers”. The third was the “inadequate enforcement of intellectual property rights”. I think to us those issues would be fairly significant and I'm wondering if you've given any thought.... Obviously, DFAIT has given them some thought, because they've listed them as problematic areas, but at the end of the day, how do you expect to overcome them in the negotiations? What I'm concerned about is what's at risk from Canada's side, versus what we gain from the other side.

It's interesting about India—and I don't know if everybody knows this—that if you lose your baggage with Air Canada and you spend some time on the phone, the call centre you're dealing with is in India.

Don?

**Mr. Don Stephenson:** But that may be where your bag is.

**Some hon. members:** Oh, oh!

**Hon. Wayne Easter:** That's a good point, Don.

**Mr. Don Stephenson:** My apologies.

With respect to investment, first of all, as I noted in my opening remarks, we are hopeful we will be able to conclude a foreign investment promotion and protection agreement very soon with India. That would provide for its own dispute settlement system that involves independent commercial arbitration and so should provide greater certainty and a clear procedure and opportunity for Canadian investors to prosecute their rights.

**The Chair:** I don't want to interrupt, Don, but this is what you mentioned in your documentation. This is outside the general FTA. Is that right?

**Mr. Don Stephenson:** Yes.

Within the FTA negotiations, it's certainly in the area of services. One of the four modes of providing service is to invest in the other country: to establish a corporate presence in the other country to deliver the service. We are certainly hopeful that these negotiations will address questions of investment in services and that the dispute settlement system that applies to the FTA will then be available to service providers and investors in the Indian market.

With respect to services more generally, we expect services to be rather a cornerstone issue, a critically important issue in these negotiations and frankly on both sides. On the Indian side, it has already been made clear by their secretary of commerce, their deputy minister of commerce, if you will, that a priority in the negotiations on the Indian side will be the services sector. As you may know, the Indian economy and export model relies much more heavily on services than do those of other emerging economies.

Of course on the Canadian side we have our own services interests. I noted some of the more obvious ones: financial services, engineering, environmental services, and education services—a huge potential market in India. So we will be looking for reciprocal undertakings and obligations on the Indian side to those that we might contemplate on the Canadian.

• (1140)

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

Mr. Shory.

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

Also, thank you to the witnesses for being here to discuss this trade agreement...[*Technical Difficulty—Editor*]

**A voice:** Your mike is off.

**Mr. Devinder Shory:** Okay.

A few weeks back, I had an opportunity to travel with the minister to India. I just wanted to see the impact of the negotiations on both economies.

You were there also, Don.

While there, we met with many Canadian companies, and specifically I want to talk about that. We met with McCain Foods, Valiant Corporation, Magna International, and Bombardier, etc. I want you to share with the committee some of their comments. Were they receptive to our negotiations? Were they encouraged that the

minister was there to talk to them and obtain their feedback? I want you to share all those things.

**Mr. Don Stephenson:** I guess as a general comment I would have to say that those Canadian companies active in the Indian market that the minister was able to meet with, including many in round table discussions, viewed the minister's interest and the Government of Canada's interest as extremely positive. They noted that in doing business in India, relationships matter, and government-to-government contacts matter in support of building business relationships.

There are clearly a number of challenges Canadian companies face in the Indian market that they are hopeful we will be able to address in negotiations. Sometimes they are straightforward issues like tariffs. Sometimes they are more complex issues: regulatory matters. There were concerns about the opaque nature of land acquisition, land title, and land registry services, and all varieties of other issues that we may or may not be able to successfully address in the negotiations.

The minister and of course you were extremely warmly received by the Canadian firms. They want those contacts to multiply if at all possible.

**Mr. Devinder Shory:** You also mentioned—and I agree with you—that GDP growth in India averages 8.2% or so, which is very good...[*Technical Difficulty—Editor*]

**The Chair:** Your mike—

**Mr. Devinder Shory:** Okay.

While there, Don, we explored opportunities to peek into it, to get some information about the technology sectors, etc., the sectors that our companies doing business there are already in, and how they are performing.

As a matter of fact, I want to come back to child labour for a minute, because that is definitely an issue. But I remember that when we visited McCain Foods, for example, they had hundreds of employees. I did not notice any signs of working kids.... Did you notice any...?

**A voice:** No...[*Technical Difficulty—Editor*]

**The Chair:** [*Technical Difficulty—Editor*...]just go ahead.

**Mr. Devinder Shory:** Okay.

My next question is for all the witnesses. I want to expand on what we already know about India's large services sector and the opportunities for Canada, especially within the information and communications technology sector.

One of the advantages we have in trading with India, aside from the fact that its population is set to surpass that of China's in the next 15 years, is that it is as well part of the emerging economic powers, the so-called BRIC states. It is a country with a relatively well-educated population, which I can personally attest to, of course, as the product of Indian higher education many years ago. Also, it is very important for the committee to know—



•(1145)

**The Chair:** Do you have a question? That sounds like debate.

**Mr. Devinder Shory:** I'm coming to it.

As a matter of fact, so that the committee knows, the widespread population of India uses the English language as their language. Do you think that is also a plus point when we negotiate and do business with India rather than with some other countries? Would that help Canada?

**Mr. Don Stephenson:** I'm going to let Michelle comment as well on the opportunities for Canada in services sectors.

But there's a couple that leap to mind, on the basis of the meetings I attended with the minister. The first would be with respect to education.

The minister responsible for education told Minister Fast that because of the very young Indian population, the demographics are the mirror image of Canada's. They are in need of something like... It's a bit hard to imagine, but the figure that was used was that they need another 1,000 universities and 40,000 to 50,000 new colleges. It's hard to even compute those kinds of numbers.

This is just to say that if it's a half of that or a quarter of that, it's an extraordinary opportunity for providing educational services to the Indian market. I can tell you that there is an awful lot of activity by Canadian universities, Canadian colleges, and some Canadian private sector educational institutions, such as language schools, etc., to seek business in the Indian market.

It was striking.

The second opportunity is in all of the services related to infrastructure, where Canada is so strong, particularly in transportation infrastructure. Bombardier and SNC-Lavalin are leading the charge, but there's a lot of opportunity for smaller firms, particularly firms that can bring new technology to a partnership in India. They talk about the need to create 200 new cities. As people move from rural areas into cities, it can't be just the existing stock of cities. They are creating an industrial corridor from Delhi to Mumbai. I think the focus there is sort of 20 new cities focused on specific economic sectors. That kind of scale of opportunity for engineering, for architectural services, and for transportation services is kind of staggering.

Those are the two that leap to mind.

Michelle?

**Ms. Michelle Cooper (Director, Services Trade Policy, Department of Foreign Affairs and International Trade):** Good morning.

I think we're in early days in the negotiations with India on services. We haven't actually officially exchanged requests yet, but the joint study done between Canada and India has identified some of the complementarities in services between our two economies. As pointed out by Don, there are a lot.

I think that for Canada we have a lot of expertise to sell in India. Engineering firms were mentioned by Don. I think that's a strong advantage of Canada abroad, not just in India, but in most emerging

markets. We have the engineering firms that can bring in the design and special specific skills. Often, they're specializing in different areas.

We mentioned energy and energy services as one area. Electricity distribution is another area in which Canada has a lot of skills. There are also oil and gas exploration and infrastructure—building and architects—as Don mentioned as well. There are a lot of Canadian firms that are very active and obviously look at the Indian market as a great area for expansion.

Another advantage for us is obviously that in these negotiations we are looking for more transparency. Often companies will raise the fact that they don't necessarily know the regime that operates in India. So transparency would be one area, as well as just binding the current regime. In many cases, India has taken autonomous liberalization in various areas—financial services is one example—but hasn't bound this. So companies aren't always assured that they are going to have the same investment or service conditions that are currently in existence. So an advantage of the CEPA will be to bind the current regime. That's what Canada would be seeking in an agreement.

On the other way back, of course, as Don mentioned, India is the 13th-largest services exporter in the world. They are actually a larger services exporter than Canada; we're 18th in the statistics. They have a lot of advantages. Information technology has been mentioned; that's an area where India has expanded quite a lot. Call centres have been mentioned, too.

India tends to make known their interest that they are obviously looking at different modes. We talked about the modes of service supply, but obviously their interests are in temporary entry of their workers, as well as in cross-border, which would be with information technology as an example.

•(1150)

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

It's interesting to be coming from a country of 34 million and trading with a country of 1.2 billion and growing. The dynamics and the size are really quite staggering.

I'm going to ask the committee.... We will take a quick five-minute break at this time—at most—if that's okay. They have to reboot the system for our microphones to work properly. We'll suspend for five minutes.

•(1150)

\_\_\_\_\_ (Pause) \_\_\_\_\_

•(1200)

**The Chair:** We'd like to call the meeting back to order.

I'll give you a quick explanation. It's the best I have and it's the only one that was given to me. It seems that if we touch the button at the same time that they try to engage the button, it blows the system. Let's just put it that way in simple terms. So if we keep our hands off the buttons now, for the rest of the time I think we'll be okay. Nobody moves, nobody gets hurt...it's all good.

**Voices:** Oh, oh!

**The Chair:** We want to continue now with the rotation. We'll start with Madam Péclet.

Ève, batter up.

[Translation]

**Ms. Ève Péclet (La Pointe-de-l'Île, NDP):** Yes.

[English]

I would encourage the witnesses to put in their earpieces because I'm going to be asking my questions in French.

[Translation]

Thank you very much for joining us today.

My first question has to do with a presentation that Mr. Serge Godin, co-founder of CGI, made before the Montreal Board of Trade.

In his presentation, he said that the transfer of strategic jobs—likely to take place if we sign a free-trade agreement with India—will further reduce Canada's productivity, which is already below the productivity of many other countries. He added: "The jobs that are being transferred to emerging countries are the start of people's careers... By moving those jobs elsewhere, we are going to lose the next generation of IT designers and developers, which is so essential to our productivity. We are cutting off our nose to spite our face."

In other words, he said that we should be cautious about signing a potential free-trade agreement with India, since the government made no announcement whatsoever about a strategy to keep jobs in Canada and to avoid moving them to India. That is what happened here. Montreal was greatly affected by thousands of jobs being outsourced.

Where is the government's strategy to prevent the outsourcing of jobs? What stage are the negotiations at? What will be the consequences if no such strategy is developed to keep jobs in Canada?

**Mr. Don Stephenson:** What stage are the negotiations at? They have not started yet. We are still at the very beginning of the negotiation process. So, as Ms. Cooper said earlier, no service requests or offers have been exchanged yet.

I have met with Mr. Godin on two occasions and I have also met with some of his team members in order to have a good grasp of his concerns. A CGI representative will be on the industrial consulting committee to follow the whole negotiation process closely. We understand his concerns and we obviously have to make sure that the agreement is in Canada's interest before signing it.

That said, we are currently competing with India, and we are going to continue competing with India after signing any agreement whatsoever. So we cannot get around competing.

The last part of your question is more appropriate for Industry Canada than for my department. Anything that has to do with the industrial sector falls under Industry Canada.

• (1205)

**Ms. Ève Péclet:** You are telling me that we are talking about something that we don't know the outcome of.

**Mr. Don Stephenson:** Yes.

**Ms. Ève Péclet:** We actually have no idea what is going to be negotiated and presented. We should almost invite you back in a few months after the negotiations started. Because right now, I can ask you all the questions I want but you won't be able to answer.

Would you also be able to tell us exactly what the government's position on corruption is? My colleague touched on this topic, and I would like to know what you are going to do about it. A 2005 report prepared by Transparency International Canada Inc. shows that corruption is at 53% at the municipal level. Those are people who take bribes to approve construction plans.

What will negotiators do to prevent Canadian companies from setting up shop in India and from receiving bribes? That's not what we do here, so I don't see why it would be any different elsewhere.

[English]

**The Chair:** Okay. Very good. I'll ask for a response back.

[Translation]

**Mr. Don Stephenson:** I am going to ask my colleague Luc Santerre to talk about that.

**Mr. Luc Santerre (Director, South, Southeast Asia and Oceania Commercial Relations, Department of Foreign Affairs and International Trade):** You are referring to a report from 2005. There has been a lot of water under the bridge since then. India is a democracy with very strong constitutional guarantees, including freedom of the press. Corruption is one of the topics that makes it to the headlines. Inquiry commissions are in place. All sorts of mechanisms are in place. I feel that mentioning a report from 2005 might be slightly inappropriate.

Of course, Canada has very strong legislation on corruption. In no way can our companies give bribes or get involved in corruption with foreign officers, foreign government officials, at any government level. We have it covered in Canada. So Canada's position seems very clear to me. The same goes for the social responsibility of those businesses abroad. I think this is all part of the negotiations for the comprehensive economic partnership agreement.

You also talked about the outsourcing of jobs. As representative of the Canadian Trade Commissioner Service, I would say that the general advice we give Canadian companies is to keep focusing on their international competitiveness and their cost structure. In some cases, that could mean dealing with foreign service providers. Earlier we talked about call centres for lost luggage, for example. This might also affect value-added services, such as those in computer engineering.

I think you have raised a valid point when you talked about the protection of jobs in Canada. But we also have to make sure that Canadian companies pay attention to their international competitiveness and their cost structure. They have to see what their competitors are doing, be they American or otherwise, in order to monitor and reduce costs for computer services, for example.

[English]

**The Chair:** Thank you.

Mr. Shipley.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** Thank you, Mr. Chair.

I would like to go to the witnesses regarding agriculture. From our involvement in these discussions, it would appear that we have incredible opportunities for agriculture businesses in Canada to assist the growth of an industry in India that in some cases in terms of production subsists only to sustain a population. I think the imports from agriculture likely are much like the soup we had today: a mix of everything. It's about proteins, pulse crops.... Can you expand a little for me on the opportunities for Canadian businesses to assist the Indian people in their agriculture industry, whether it's the actual products we ship, the fertilizers to make the crops grow, or the innovative technology?

• (1210)

**Mr. Don Stephenson:** Well, first of all, the basics: our largest exports to India are lentils and fertilizer—potash. So the tariff that either applies or could be applied to those exports in the future is relevant to us and a basic objective in the negotiations.

With respect to those crops, India is looking for investment in food storage and food-handling systems beyond simply receiving the lentils. With respect to potash, they are looking for a long-term supply relationship with Canada.

With regard to the opportunities beyond our basic and current exports, I would say that what India is looking for is investment and expertise—technology—in the area of food handling and food processing.

An interesting example I was just relating is the investment of McCain Foods. They took several years to study the optimum potato to grow in the Indian market. They then took the time to train local farmers in methods of irrigation and fertilizing the crop that greatly reduced the requirement for water and chemicals. They now have a relationship with 1,200 Indian farmers to supply their plant in India. That's the kind of partnership.... Now, that also involves the transportation and cold storage facilities to get their product successfully to their buyers in the Indian market. Those are the kinds of investments and partnerships that India is looking for.

**Mr. Bev Shipley:** Okay. Then does that stretch out...? I think I read somewhere that they're talking about GM in one of the products in terms of the genetics that might come from Canadian research on crop development, for example, in terms of the tolerance to be able to grow. You touched a little on that, Mr. Stephenson.

Would that include the genetic research that we have available here in Canada, along with some of the regulatory processes that we implement, so that we can continue to have a free trade flow of those goods uninhibited by regulatory processing?

**Mr. Don Stephenson:** Very much so: I would say that one of the exports from Canada that is of interest to India is our governance in areas such as food safety, but also our research and our technology with respect to increasing the efficiency of agricultural production. Even if it is David and Goliath in terms of the size of our markets and our population, we have an awful lot to offer each other, particularly in agriculture.

**Mr. Bev Shipley:** Thank you.

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

Mr. Masse.

**Mr. Brian Masse:** Thank you, Mr. Chair.

I would like to follow up on my previous question with regard to asbestos. Canada is developing quite an international reputation related to that. Why couldn't we carve that out as part of the negotiations? Has that option been presented?

**Mr. Don Stephenson:** In any trade negotiation, you can carve things out. The likely response on the other side of the table is to carve something else out. The danger to the negotiation in the long run is that everything is carved out.

With respect to our position on asbestos, there is no export restriction on asbestos in Canada. Canada believes that...and I'm not an expert in these matters, I can't debate these policies.... But it is the policy of the Government of Canada that there are safe uses of asbestos and that it is the duty of importing countries to regulate that usage in their country, as Canada does in Canada.

• (1215)

**Mr. Brian Masse:** I find it ironic that you're testifying here today in this building because the building that we used to have these hearings in is having asbestos removed from it; it's too dangerous for people to stay in that building because of the cancer-causing agents in asbestos.

**The Chair:** I'm going to intervene here.

I don't mind a question about trade on asbestos, but the debate around asbestos is a natural resources committee question, so I don't—

**Mr. Brian Masse:** It's a trade issue, Mr. Chair.

**The Chair:** It's a trade issue and he'll answer you on the trade issue component of it, but not the debate around asbestos use. It's not for this committee to debate that.

Go ahead.

**Mr. Brian Masse:** Well, it's just the irony of the situation that we're faced with here....

The carve-out, though, would be different: it would be us not removing the tariff from the asbestos. Currently you're suggesting that you've been ordered to negotiate the removal of a 10% tariff on asbestos. We could just take the position that we're not going to remove that tariff or not going to request a removal of that tariff. That's a benefit to them.

**Mr. Don Stephenson:** Yes, I haven't actually been given any specific directive in respect of the tariff on asbestos; I'm just saying that in the tariff negotiations, when they finally get going, the direction of the negotiations is to reduce and eliminate tariffs. With respect to.... Again, I don't want to get involved because I have no expertise in the matter of the various kinds of asbestos and the uses of asbestos. I suspect we're talking about different things in respect of the building that's being refit—

**Mr. Brian Masse:** The West Block.

**Mr. Don Stephenson:** —and the uses of asbestos that is being exported from Canada.

In any event, there is no restriction, so in respect of the trade dimension of this issue, I guess I've given you the answer.

**Mr. Brian Masse:** Yes. That's fine. I'll move on.

I would like you to detail a little—if you can with the time remaining—the India-South Korea and the India-Japan negotiations, how they would impact this trade agreement, and whether or not they had an automotive component in those agreements. All three of those nation states have high tariff and non-tariff barriers. If you look at Japan, for example, I think you'll see that we sent in 5,000 vehicles last year, and they have hundreds of thousands that come into Canada every year. Can you highlight that dynamic of the three nations?

**Mr. Don Stephenson:** I guess the most helpful thing I could do would be to offer to prepare a written brief in respect of the details of the Japanese and South Korean deals with India, but there were provisions on automobiles. Certainly in the case of the EU-India negotiations, which are still ongoing and are said to be currently at a bit of an impasse but could conclude relatively soon, we are advised that those negotiations also include provisions.... In fact, one of the sticking points is said to be the automobile sector, which of course is a huge interest for the European market.

The Canadian companies that are active in India at the moment are more in automotive parts and services or equipment that supports automobile assembly plants, and we sell some specialized vehicles into that market. But that's about it.

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

Mr. Holder.

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

Chair, I'd like to thank our guests for attending this session with regard to CEPA, our free trade deal with India.

I find it a very compelling argument, the reasons for the need to do this deal, and the chair cited earlier the size of the population of India. That just got me reflecting on its size and, according to your comments, Mr. Stephenson, how big the population of India will grow, which is to become the number one population in the world in the frankly not too distant future. I therefore think that if there's an opportunity, it's now.

One of the things that occurs to me, when I look at it.... We've talked before about the BRIC countries having some significance. This committee has gone to Brazil for that purpose. It is a focus. China, and obviously Russia...these are things that I know we will cover over time.

I heard one of my colleagues opposite expressing concern about losing ground with our current markets. I was thinking about that and about how we had the representatives from the pork industry here, who some years ago had 75% of the industry in the States. Now their market share is down to 32% while in fact their volume has actually doubled. So I think the reason we're doing this, and why there's such an aggressive trade agenda with the government, is that we don't want to have reliance on any one country. To have this kind of support in working with India makes a whole bunch of sense to me. The reason that we're so aggressively engaged in bilaterals is that the notion of multilaterals is off the table, as I see it, frankly.

This is related, so I'd like to ask this question: in your opinion, is Doha done?

• (1220)

**Mr. Don Stephenson:** I usually like to say it's not dead—it's resting.

**Voices:** Oh, oh!

**Mr. Don Stephenson:** It's difficult in the current global environment to see sufficient leadership being shown to bring the round to an early conclusion. That's my assessment: I don't think it's for any time soon—

**Mr. Ed Holder:** So do you think our strategy of promoting these bilaterals the way we have thus far—which I think we all agree is a fairly aggressive schedule—is the right approach?

**Mr. Don Stephenson:** I don't really see an alternative, as long as all your other trading partners are doing the same thing. You can only fall behind.

**Mr. Ed Holder:** We heard some comments earlier from somebody about our situation as it relates to South Korea. I'd rather talk about India, because that's what you're here to talk about.

We're ahead of the United States on this. Why does that matter?

**Mr. Don Stephenson:** For the same reason that the comment was made about the U.S. deal with Korea: we could provide our exporters with a tariff advantage over their competitors in other countries, including the United States, if we were successful in negotiations with India first.

**Mr. Ed Holder:** Thank you for that.

You made a comment about our business tripling by 2015. That feels a little aggressive to me, and I'm never bad with aggressive. How do you see that happening? How do you see that developing? Where will that business come from? Do you think that's attainable?

**Mr. Don Stephenson:** I get a little nervous around numbers and projections, because that's sort of all they are. The joint study, for example—

**Mr. Ed Holder:** We used to be, too, until we had a majority government. It's a little different now.

Sorry, Chair.

**Mr. Don Stephenson:** The joint study is just an economic modelling exercise. What happens in real life depends on real-life Canadian businesses moving more aggressively to the Indian market. What the government is trying to do is provide the certainty and provide the support to bring more Canadian.... I understand from figures from the Export Development Corporation that there are something in the range of 300 to 350 Canadian companies active in the Indian market. That's the number we need to focus on: doubling and tripling that number.

The way to do that is partly through trade negotiations, the negotiation of the foreign investment protection agreement, the CEPA, to provide a rules-based...and also to eliminate tariffs, of course. But on the other side, the Canadian trade commissioner service and the trade promotion investment activities—you know, the other half of the trade department—are critically important in actually achieving this goal.

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

Mr. Hiebert.

**Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC):** I have a number of questions. I'll start by asking for your thoughts.

You mentioned in your opening remarks that India has already concluded several trade agreements with I think the EU, among others. Can you remind me which...?

• (1225)

**Mr. Don Stephenson:** They recently concluded agreements with Japan and South Korea. They have not concluded one with Europe. They're in negotiations with Europe.

**Mr. Russ Hiebert:** To what degree are we able to use those negotiations to our advantage? Are we able to see the terms of those agreements? Do they tend to try to mirror those agreements or is there a great deal of flexibility in altering or changing those agreements?

**Mr. Don Stephenson:** The prior negotiations of India help us a great deal, to the extent that the obligations that have been negotiated are satisfactory and sufficient to meet Canadian interests.

No trade agreement is a legal precedent for what you will negotiate with the next partner. Certainly how much leverage you have in negotiations matters, but they still provide a kind of a benchmark against which you can negotiate. The extent to which we can use the model that has already been successfully negotiated with India by others will help us move quickly in the negotiations.

We are hopeful that Europe will also help us in this regard by pushing the envelope a little. I said earlier a couple of times that Indian trade policy is a moving target. It's evolving all the time and tends toward increasing liberalization all the time. In each of their trade negotiations, they have addressed new issues or have gone a little further in what kinds of obligations they're willing to take. So yes, their existing agreements and their other negotiations help Canada push its own agenda in the negotiations.

**Mr. Russ Hiebert:** You talked about wanting to consult Canadian businesses in India and other stakeholders. Do they take the same approach? Who are they trying to satisfy? Who can we as parliamentarians influence on their side of the negotiating table to come to a satisfactory agreement?

**Mr. Don Stephenson:** On the Indian side, there appears to be a fairly well-organized and defined procedure for consultation with business, and it involves the two principal business associations: the CII, the Confederation of Indian Industry, and the FICCI. It's the Federation of Indian.... I'll get back to you on that.

But in respect of those two principal associations, there is a very strong and direct consultation procedure with respect to each of their negotiations. There would actually be someone in the CII and someone in FICCI who would be tracking the Canada-India negotiations and briefing their members on the negotiations, analogous to our consultations with the Canadian Manufacturers and Exporters association, the chambers of commerce, or the Council of Chief Executives. But it's a very well-established procedure and, as I understand it, very detailed briefs and very transparent discussions with respect to the details of the deal.

**Mr. Russ Hiebert:** So you're saying that, other than the negotiators, the stakeholders would be the ones to talk to, and these would be the key stakeholders trying to leverage that.

**Mr. Don Stephenson:** Yes.

**Mr. Russ Hiebert:** How about non-tariff barriers? Those are often seen as greater obstacles to free trade than the tariffs. What type of non-tariff barriers are we facing and how can we address them?

**Mr. Don Stephenson:** They will be addressed in the negotiations. That's typical of our approach in negotiations. We will look for opportunities to establish fast-track mechanisms for dealing with the resolution of issues, for disputes in the area of sanitary-phytosanitary rules and technical barriers to trade. Because we have a large agricultural trade with India, we tend to have quite a number of sanitary and phytosanitary issues or disputes at any given time.

When the minister was in India three weeks ago, he met with his colleague on the agricultural side in India and pressed first of all on a number of specific SPS issues, the irritants in existing trade, but also on establishing a priority for addressing these issues in parallel with the negotiations. Because it will be critically important for the Canadian exporters, when we get to the end of the negotiations, to know that not just has the tariff been eliminated, but the technical barriers that they're having difficulty with have also been addressed, so that the access they're getting in the negotiation is real and they're actually going to get into the market.

• (1230)

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

Madam Péclet.

[*Translation*]

**Ms. Ève Péclet:** I am going to share my time with my colleague Mr. Blanchette.

Right now, we have no idea what's going to be on the table. But I am dumbfounded by the fact that every time the government signs a free-trade agreement with whatever country, exports go down. So we know right now that there is a negative trade balance. It has never been as problematic as it is now. I was telling you about strategies to keep jobs and you were telling me about companies being competitive. Those are not two separate ideas.

Some say that the NDP is against free trade, which is not true. Give me one free-trade agreement from which small businesses in my riding can benefit, and I am going to sign it. That's the only point I wanted to make. No free-trade agreement ever benefits small and medium-sized businesses, at least not at the moment.

I am going to let my colleague ask his question.

**Mr. Denis Blanchette (Louis-Hébert, NDP):** Thank you to our guests.

I would like to talk more about the job issue. Something you said puzzled me. Among other things, you said that you are going to focus first on companies that are already doing business with India.

Have you made short-term, medium-term and long-term projections as to which sectors will be better off or worse off, the places where jobs will be created and how will this be broken down?

**Mr. Don Stephenson:** Let me try to answer the various parts of that question. I would have to check this first, but I think that our free-trade agreement with the U.S. and NAFTA have been very positive for Canada. I might have to check the figures to be able to give you an accurate answer.

I think that Mr. Santerre's remarks on being competitive were meant to show that Canadian banks are still competing with their counterparts in other countries by buying some services from India. Even CGI has 2,500 employees in India for the same reasons. Some tasks can be done more efficiently by companies in India and why not take advantage of that?

I feel the real challenge is getting small and medium-sized enterprises involved in international trade. I was explaining just now that the support service we provide to businesses, the Canadian Trade Commissioner Service, is mainly for small and medium-sized businesses, because companies like SNC-Lavalin and Bombardier don't need us as much. Those companies have a presence and they have the resources to be wherever they want.

• (1235)

**Mr. Denis Blanchette:** At the moment, we are under the impression that those negotiations are actually an opportunity to promote the major companies that you mentioned. Your framework shows some types of services, capital and raw materials. But it is for the short term, since India needs a lot of construction to be done. I have great respect for India's potential. In my view, India can be for services what China was for manufacturing.

That is why I was talking about projections earlier. In 10 or 15 years, will we no longer be exporters of minerals and grains?

**Mr. Don Stephenson:** No, because I also said that one of India's interests in Canada is access to technology. Very small Canadian businesses that are already active in the Indian market can provide the technology.

I think that our challenge at the Canadian Trade Commissioner Service is to help small and medium-sized businesses. However, the outcome of the negotiations and projections on the possible spinoffs of an agreement don't just focus on the activities of large companies.

In addition, when large Canadian corporations are in a market, they need suppliers. So they bring small and medium-sized Canadian businesses with them.

[English]

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

Mr. Cannan.

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

Thanks to our witnesses.

As one of the longer-term committee members here, I know the impact of the discussions. Maybe some of my colleagues around the table haven't had a chance to be privy to some of the information, but the fact is that one in five Canadian jobs relies on trade. That's 60% of our GDP. We are a trading nation.

I think it's important that you speak with some of your constituents and your businesses to understand.

It's important that all of us here maximize our natural resources. We're a country that's so rich in resources. We're blessed as a nation. World leaders would love to be in Canada's position. We have the greatest country in the world.

The way we can continue to keep that quality of life is to expand our trading opportunities, as Mr. Easter said. I'll defend Minister Fast, who has been doing a fantastic job as our trade minister, working with the Prime Minister and President Obama. The U.S. is going through their silly season with their elections coming up so we have to respect that. That's their democratic process.

Taking that into consideration, could you share with the committee why it's so important that we diversify our markets when we've been so reliant on the United States? Also, what has NAFTA done for Canada? As well, what will other trading opportunities do for small, medium, and large businesses across Canada?

Thank you.

**Mr. Don Stephenson:** We all have a favourite statistic about why trade is important to Canada. My favourite is that Canada represents 0.5% of world population and 2.6% of world trade. The difference between the two numbers is our high standard of living. Another way to say it is that we make twice as much as we can buy. Not geographically, but in terms of market, we're a small industrialized country, and we need global markets to succeed.

Although I'm no longer responsible for the rest of trade policy—just the India negotiations—the U.S. market is the context for the India negotiations as well. It's clear that in Canada job one in trade is still the United States. It still represents something like 72% of our merchandise trade, but less than 10 years ago it was 87%. The number I cite is the share of our exports. The number is in decline and continues to fall. That's due to a number of things. Our dollar has strengthened and has made us a little less competitive, and other countries have become more competitive in the American market.

So the happy news is that the share that's represented by new markets is also growing. But our trade in the U.S. is flat in real terms. Even though it is still job one in Canadian trade policy, that's why job two, which is diversification of markets, is more and more important all the time. Canadian business made this decision in 2005-06, when the numbers began to shift fairly dramatically. For the best exposé on the numbers, I would recommend Peter Hall, the chief economist at Export Development Canada, who can provide some very interesting numbers and analysis with respect to how Canadian business is diversifying markets.

The job I'm part of is the diversification of markets. It's job two, but it's pretty important.

• (1240)

**Mr. Ron Cannan:** Thank you very much.

Just as a little background specifically on India—

**The Chair:** Very quickly.

**Mr. Ron Cannan:** —I know that it has significant potential. I recently had a chance to meet the High Commissioner. I highly recommend to the clerk that we have the High Commissioner come as a witness when appropriate to share a little of the opportunities for Canadian businesses in working together to help both countries.

Just as we worked with Colombia, we know that a rising tide lifts all boats. They have a lot of issues with child poverty and things like that too. I would ask you if this is an opportunity for both countries to increase their productivity with a bilateral.

**The Chair:** I'm allowing just a very quick answer.

**Mr. Don Stephenson:** Yes, absolutely, and I guess I do believe that a rising tide lifts all boats, and if you improve the economic opportunities available to Indians, some of the other socio-economic indicators will also improve. Certainly it's good for Canadian business, because if you want to be competitive, you have to compete. Competing in the explosive growth markets—India, China, and others—is critically important.

**The Chair:** Mr. Ravignat.

Just talk: you wanted to touch the microphone.

**Voices:** Oh, oh!

**Mr. Mathieu Ravignat:** I did, desperately, but I didn't.

To add very quickly to our discussion on jobs, an important thing to point out is that it's not so much the number of jobs created through trade, but also the kinds of jobs that are created in Canada and the kinds of jobs that are kept in Canada. My colleague's point was that since we have had various trade agreements, a lot of the manufacturing sector in our country has been hit hard, and I think that's a legitimate concern we have. If we allow more of the manufacturing jobs—as well as the service jobs—to go to India through this trade agreement, then the question is whether or not we can keep the level of wealth we have in this country, and particularly the strength of our middle class. I'll just put that aside. That's kind of the perspective we're coming from.

In June 2010, India and Canada came to some agreements on nuclear energy and nuclear power. In the past, Canada has contributed technology to India when it has dealt with nuclear energy, so my question to you is about how that agreement is going to affect the trade negotiations in the future and what our stance on India's nuclear energy program is going to be. I won't talk about nuclear arms programs; I'll just talk about the nuclear energy programs.

• (1245)

**Mr. Don Stephenson:** I'm going to deal with the smallest part of that question, and that is the potential for a Canada-India partnership in the nuclear field. I'll let Luc handle the rest.

Canadian business interests have indicated that after the administrative arrangement is concluded with India there will be very significant opportunities to implement the nuclear cooperation agreement in two areas: the sale of uranium to India, and partnerships on the development of technology, particularly, as I understand it, the CANDU technology that was introduced in India. There was very little contact between the Canadian and Indian

industries for a long period of time, so the technology has been further developed on both sides independently.

Canadian industry holds the view that there is a significant opportunity for working together to develop the next generation of technology by using the best practice on both sides. This might result in a huge export potential for global markets, particularly in smaller developing countries. That's what I've heard on the trade-potential side of nuclear, but with respect to the agreement, let me punt.

**Mr. Luc Santerre:** I would just add that the agreement, as the member would know, is strictly in the civilian sector. Indeed, it has not yet been implemented. Canada and India are still negotiating what are called the appropriate arrangements for implementation. That's about the tracking of material both ways by the two parties.

We're hoping that those negotiations can conclude quickly and that trade can begin. India certainly has an appetite for our uranium, which is the best in the world in terms of grade. There is an interest because there is a kinship in terms of the use of heavy water technology. Canada and India are the two countries that best know this technology, so there is a great potential for working in each other's markets, and in third markets, as Don indicated.

**The Chair:** You have 40 seconds, Mr. Ravignat.

**Mr. Mathieu Ravignat:** Forty seconds?

Very quickly, with the CETA agreement, the provinces were brought into the process early. I'd like to know how the states in India are being engaged in the process.

**Mr. Don Stephenson:** I'm sorry, but I am unaware of what arrangements the Indians make on their side to consult their states. I'm only concerned with engaging my provinces and territories.

**The Chair:** Thank you.

Now we have Mr. Easter, then Mr. Holder, and then we'll wrap it up.

Go ahead.

**Hon. Wayne Easter:** Thank you, Mr. Chair.

Don, there's not much need to be nervous about the numbers. While we like accurate numbers, the chief number cruncher of the country, the Minister of Finance, has never hit a budget target yet and he's not very nervous.

On your presentation—

**Mr. Ed Holder:** Point of order. That would be the—

**Hon. Wayne Easter:** Well, it's true, guys—

**An hon. member:** Relevance?

**Hon. Wayne Easter:** We call him “Deficit Jim”.

**The Chair:** I think we need the question.

**An hon. member:** He's respected by the financiers of the world, isn't he?

**Hon. Wayne Easter:** In your presentation, you mentioned that in addition to the bilateral S and T agreement already in place, budget 2011 provides \$12 million over five years for a Canada-India Research Centre of Excellence. How does that work? Is it for areas that benefit both countries? Just expand on that, if you could.

**Mr. Don Stephenson:** Luc, are you aware of the details?

**Mr. Luc Santerre:** I'm not entirely aware of the details. These are currently being developed. There is work between the government and learning institutions to make sure that the proper areas of interest are being addressed. The Canadian learning institutions all have an active and beneficial dialogue with counterpart institutions in India. It's pretty vast: science, technology, humanities, and policy. It is being refined and developed.

• (1250)

**Mr. Don Stephenson:** I'm sorry, but we don't have a direct role in those discussions. The best I could do would be to ensure that a written brief comes to the committee.

**Hon. Wayne Easter:** Yes, if you could do that, we'd appreciate it. I think that Holland College in Prince Edward Island has set up two satellite colleges in China. We need to find out the details of what really that means and how it is to be utilized for the benefit of Canadians.

When Mr. Macartney was before the committee in September, he stated that in terms of two-way investment, in 2010 it had reached \$7 billion, with the majority being Indian investments in Canada. I guess we don't need to know how much of that Indian investment is targeted and where to. Maybe there's no way of knowing.

In your earlier remarks, you said that one of our key areas would be investment in India through engineering and architectural firms, etc. But what areas is India currently targeting in our market? Is it real estate, business, resources...? In what areas are they gaining an advantage in Canadian society?

**Mr. Don Stephenson:** I'll let Luc give you some information on investments that have been made or discussions that we're aware of.

While the minister was in India three weeks ago, he heard about investment interests in Canada, particularly in potash, so I'll add that to Luc's list.

With respect to investment numbers in particular, I think I mentioned the last time I was here that there is a little bit of scrutiny over the number for Canadian investment in India because, principally for tax reasons, Canadian investors often make their investment from a third state. In particular, Mauritius is a popular site for incorporating an investment in India. That's for tax purposes, as I understand it. As well, more recently, people are using Sri Lanka. So it's difficult to know precisely what the Canadian investment is.

This problem occurs across trade statistics, most especially in investment, but even with respect to goods. For example, we're confidently advised that 8 out every 10 diamonds that come out of the Northwest Territories ends up in India for polishing and being made into jewellery. None of it shows in our trade statistics because first it goes to Antwerp. So it's U.S.-India trade. The numbers need to be examined a little bit before you can have too much confidence.

**The Chair:** Please be very quick.

**Mr. Luc Santerre:** Indeed, very briefly, I would say that one has to take the bilateral investment statistics with India with a grain of salt. First of all, we only track what is considered foreign direct investment with at least a 10% stake. Portfolio investment is not captured and there are substantial amounts of that in the world today. Also, then, for tax reasons, investment may be registered in third countries and not appear in official stats.

What we know from anecdotal evidence from our operations in India, in speaking to Canadian companies that are investing there, and also in speaking to Indian companies that are invested here in Canada, is that we can quickly add up amounts that exceed the official stats. When we meet with a company, they tell us what they consider to be their stock of investment in Canada, regardless of what third country it may be structured to for tax maximization purposes that are obvious to all corporations around the world.

I would say there's certainly an interest in fertilizers and in natural resources. But more broadly speaking, certainly, we've talked about information and communications technology, life sciences, and advanced manufacturing. Given the size of India and the strong growth demographically and economically, you can imagine that it's pretty much in every sector.

I don't know that the Indian government has any kind of industrial or sectoral strategy, if that's what your question was referring to. My guess would be, if that was your question, that there isn't.

• (1255)

**The Chair:** Thank you.

Please go ahead, Mr. Holder.

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

I'm very proud to be part of a government that has such an incredibly strong finance minister, to the point where he's regarded as the single strongest finance minister in the world, and not judged by this government, although that is our opinion, but by those around the world. I would tell you that there will be those who see the glass as half-empty, but as my Cape Breton mom used to always say, it's more crucial to look at things as half-full if you want to move along and get ahead.

**An hon. member:** Hear, hear!

**Mr. Ed Holder:** I think that's the point of what we're trying to do: move along and get ahead.

There's a question, though, that I wasn't sure about. In your earlier testimony, Mr. Stephenson, you talked about the difference between the lower tariffs that Canada has with India, at somewhere in the 3% range, I think you indicated, and tariffs on average in excess of 10%. Is that historical? Why is that? I mean, obviously even without trade agreements there are always negotiations that go on, and things can be moved. Why the disparity?



**Mr. Don Stephenson:** Well, it is historical, but it also has to do with the fact that India is a developing country and Canada is a developed country. Generally speaking, developed country tariffs have decreased considerably more than those of developing countries in multilateral trade negotiations, as well as bilateral and regional agreements.

Now, you have to understand the difference between the bound tariff and the applied tariff. The bound tariff for India, for Brazil, and for others—but not China—can be considerably higher than their actually applied tariff under WTO and other rules. But generally speaking, the difference is the history of developed versus developing country economies.

**Mr. Ed Holder:** Thank you.

You made some comment that Canada is, dare we say, 0.5% of the population: where do we rank in standard of living?

**Mr. Don Stephenson:** I'm sorry. The two numbers were 0.5% of world population and 2.6% of world trade. The difference between the two numbers explains our high standard of living.

**Mr. Ed Holder:** Hence there is the need to pursue strong agreements with an economy as huge as India's economy.

I want to get a little clarification. You talked about the Canada-India Research Centre of Excellence that was announced in the last budget. Can you tell me a little bit more about that? Just for my purposes, I want to understand how it's intended to work.

**Mr. Don Stephenson:** I don't know a lot about the program. As I understand it, it's administered by the Social Sciences and Humanities Research Council. There is an ongoing competition among Canadian universities for these funds. Because of my contacts with Canadian educational institutions in India—as I say, they're very active in India—I know anecdotally that most of the major universities are working on proposals for that competition. Typically they are working in partnership with other schools—in strategic partnerships among schools—to present a proposal under the program.

As Luc was saying, it's a very wide target. It involves any number of areas of mutual interest between Canada and India, including technology development, but research and policy issues are in the mix as well. I suspect that the proposals made by each of the different coalitions or conglomerates of schools will be very different and will focus on very different aspects of innovation. I believe the competition will conclude sometime in the first part of next year.

• (1300)

**Mr. Ed Holder:** I believe that my own university, Western, in London, Ontario, the tenth largest city in Canada, is very active in that. If I recall, a meeting I had there on the science and tech side with representatives from India showed they were very keen on fostering that relationship. It will be interesting to see how we can take advantage of the growth of the 1,000-plus universities they will

require in the future, as well as the multitudes more of colleges they're looking for. You said in your comments that you felt this was a huge opportunity for Canada to do that through our education system.

My quick question is now done. I was going to get into a fairly extended discussion about that, but I'll do it off-line if I might.

Thanks, Chair.

**The Chair:** Our time is about gone.

Before I thank you for coming, I'll just ask you a quick question on your timelines. I believe you said there were seven rounds left. Is that right?

**Mr. Don Stephenson:** There is not a defined number of rounds left.

**The Chair:** Okay.

**Mr. Don Stephenson:** What we have agreed with India is that there would be rounds at roughly two-month intervals from here until the summer. Then we would take stock of our schedule.

The Prime Minister, in the Speech from the Throne, instructed me to finish the negotiations by 2013—

**Voices:** Oh, oh!

**Mr. Don Stephenson:** —and that's my plan.

**The Chair:** Okay. I just needed the timeline.

We want to thank you for coming in. This is our initial meeting on the comprehensive trade agreement between Canada and India and we'll be following your progress very closely as a committee. I want to thank you for coming in.

Mr. Easter?

**Hon. Wayne Easter:** Just before you adjourn, on the trip, Rob, has any progress been made on meeting with civil society?

**The Chair:** By tomorrow I think we'll have a draft program laid out. It will go to your offices.

**Hon. Wayne Easter:** What I really think we need to do when we're there, whether it's some of the farm groups or some of the intellectual property groups or whatever...we really need to meet some people outside of the parliamentary precinct to get a feel for what they're saying.

**The Chair:** I hear what you're saying. The agenda is being looked after in the best way we possibly can.

With that, thank you very much for coming in and helping us.

We will be on a debrief of the trip on the Tuesday meeting when we come back.

Thank you. The meeting is adjourned.





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