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CANADA

## **Standing Committee on International Trade**

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**EVIDENCE**

**Tuesday, September 30, 2014**

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**Chair**

**Mr. Randy Hoback**



## Standing Committee on International Trade

Tuesday, September 30, 2014

•(1630)

[English]

**The Chair (Mr. Randy Hoback (Prince Albert, CPC)):** Pursuant to Standing Order 108(2), we are studying the positive effects for Canada of the Canada-Korea free trade agreement.

We'll start off with our witnesses.

Mr. Burney, I understand that you will be testifying, so I will turn the floor over to you, sir.

**Mr. Ian Burney (Assistant Deputy Minister, Trade Policy and Negotiations Branch, Department of Foreign Affairs, Trade and Development):** Mr. Chairman, let me start by congratulating you on your election.

I'm grateful for this opportunity to appear before the committee to discuss the landmark Canada-Korea free trade agreement which, as you know, was signed in the presence of Prime Minister Harper, and President Park of South Korea last week here in Ottawa, and for which implementing legislation Bill C-41 has now been tabled in the House.

The CKFTA is Canada's first FTA in Asia. It is a key plank in the government's ambitious trade agenda as laid out in the global markets action plan that Minister Fast announced last fall and had an opportunity to brief this committee on in the spring.

The agreement represents a watershed in Canada-Korea bilateral relations. Commercial flows are already significant, with two-way trade of just under \$11 billion last year and two-way investment approaching \$6 billion, but for two large and sophisticated G-20 economies like ours, the potential is much greater. The CKFTA should go a long way towards unlocking that potential. Critically, it will restore a level playing field for Canadian companies in the Korean market, where our companies are rapidly losing ground to competitors, notably from the United States and Europe, who are already benefiting from their own FTAs with Korea. With the CKFTA, Canadian companies will be able to compete on equal or preferential terms in this increasingly important market with a population of 50 million and a \$1.3-trillion GDP that ranks fourth largest in Asia. Indeed, the projections of our chief economist are that as a result of the agreement, Canada's GDP will increase by \$1.7 billion annually, and our exports by about the same amount.

Those are significant numbers, but there are important strategic dimensions to this FTA as well. The agreement will strengthen our hand in our ongoing trade negotiations in the region, including the Trans-Pacific Partnership and our bilateral negotiations with Japan,

as well as provide a stronger platform for Canadian companies to pursue opportunities across Asia and beyond.

Turning to the agreement itself, the CKFTA is a comprehensive, state-of-the-art FTA that is ambitious in reach and comprehensive in scope, covering virtually every facet of modern commerce. The centrepiece is the elimination of tariffs on virtually all trade between Canada and Korea. Nearly 90% of our current exports to Korea will become duty-free on the day the agreement enters into force, and all but a small fraction of the rest over time. That front-end loading of tariff cuts on our exports is vital given the urgency of restoring our competitive position in the Korean market. The outcomes are particularly advantageous for Canada when you consider that Korean tariffs are on average three times higher than ours, 13.3% versus 4.3%.

The agreement will result in the elimination of all Korean tariffs on industrial goods, on forestry and wood products, and on fish and seafood products, as well as the elimination of the vast majority of Korea's agricultural tariffs, including in such priority areas for Canada as beef, pork, grains, pulses, oilseeds, and processed foods. The terms are commensurate with those obtained by our competitors, and in some priority areas for Canada the outcomes are stronger.

For example, in the sensitive fish and seafood sector, where Korean tariffs run as high as nearly 50%, we've obtained faster tariff elimination periods on products that account for nearly half of our exports, including lobster, hagfish, and frozen herring, halibut, and Pacific salmon.

In agriculture, Korea's most heavily protected sector, with tariffs approaching 900%, we've achieved better outcomes than our competitors on a range of key products, including canola oil, barley malt, some pulses, baked goods, and maple syrup and maple sugar. There will also be major benefits across industrial and manufacturing sectors in Canada, including aerospace, rail, information technology goods, chemicals, and pharmaceuticals to name a few, where Korean tariffs can run up to 13%.

To complement tariff elimination, the agreement contains an ambitious array of disciplines on the non-tariff barriers that are such a priority for our companies, such as provisions relating to standards and technical barriers, transparency and non-discrimination, and fast and effective dispute settlement procedures.

●(1635)

[Translation]

Beyond the trade of goods, the agreement provides for ambitious results when it comes to services and investment, which will give Canada better market access to export industries that are of particular interest, such as professional and financial services.

The provisions governing procurement will give companies wider preferential access to central government procurement in both countries, putting Canada on equal footing with the United States and in a better position than Japan and the European Union, for example.

Furthermore, the agreement sets out commitments around the protection of intellectual property rights and higher protection standards for the environment and workers.

[English]

Let me turn now to the auto sector. Given its importance to our bilateral trade and to the Canadian economy, this was an area of intense focus throughout the negotiation, and the result is very strong outcomes that are commensurate with and in some cases better than what our principal competitors obtained.

For example, under our agreement, Korea will eliminate its 8% auto tariffs immediately, which compares to five years in KORUS, the agreement with the United States, and three to five years with the EU. Coming the other way, Canada's smaller 6.1% tariff will be phased out in three equal annual cuts. This means that, notwithstanding our much later start, Canadian automakers will likely have full duty-free access into Korea before the United States and the EU and will benefit from tariff protection in our market for some period of time after tariffs on Korean cars have been fully eliminated in the U.S. and the EU.

We also negotiated highly advantageous rules of origin on cars, which reflect the integrated nature of production in North America. We matched the robust safeguard provisions obtained by the United States to protect against any prospect of import surges under the agreement, and we extended those provisions to all products.

In the critical area of non-tariff barriers, including internal taxes, emission and fuel economy standards, and safety standards, our outcomes are as strong as those obtained by our competitors.

Finally, the CKFTA also provides for strong institutional mechanisms to address auto issues and specialized dispute settlement provisions with significantly accelerated timelines for disputes involving motor vehicles.

The views of our auto industry in Canada are mixed. Some firms, including Honda and Toyota and their association, have publicly and strongly welcomed the CKFTA. The concerns that have been expressed come down to two main points: first, that the elimination of the Canadian tariff will harm production and jobs in Canada; and

second, that the agreement will not achieve any real access in Korea because its auto market is closed to foreign competition.

With respect to the first point, every credible study that has been conducted on the subject has concluded that the impact of the CKFTA on auto jobs and production in Canada would be negligible at 0.2% of domestic production. That's because most Canadian production, in fact, almost 90% last year, is exported and so will be unaffected by the increased competition in the Canadian market. Moreover, Korean-branded cars sold in Canada are, as you know, increasingly coming in from plants in the U.S. duty-free under NAFTA. That volume is already close to 50%, so the protection afforded by the tariff is declining in any event.

With respect to the Korean market, while it remains challenging, there is no doubt it is opening up. Imported auto sales in Korea have been growing at about 30% annually over the last four years. The import penetration rate has increased from about 3% when our negotiations started to over 12% today, meaning that nowadays one in eight cars sold in Korea is an imported vehicle.

What is incontestable is that our access into the Korea market will be much better off with the enhanced access and disciplines of the CKFTA than without. In that context, I'd note that both the Americans and the Europeans have doubled their auto sales into Korea since their respective FTAs came into effect.

[Translation]

In terms of next steps, the official signing of the agreement happened last week during President Park Geun-hye's state visit to Canada. The visit marked the first time a South Korean president had visited Canada in 15 years. Both of our leaders reaffirmed their mutual commitment to bring the agreement into force as quickly as possible.

Now that the agreement has been signed, the ratification process in each country can begin. In Canada, that will require the passage of an implementation bill, and the government has introduced Bill C-41 for Parliament's consideration. On South Korea's end, a ratification bill should be introduced in the national assembly very soon and referred to the appropriate parliamentary committees for study.

●(1640)

[English]

While I can't give a specific forecast of when the agreement will come into force, because that requires the legislative approval of both countries, I will note that Bill C-41 envisages entry into force as early as January 1, 2015.

To conclude, the CKFTA is a historic agreement that will raise our bilateral relations with Korea to a higher level, provide inroads for Canadian companies throughout the Asia-Pacific region, and increase economic prosperity here at home.

I appreciate this opportunity to appear before the committee. My team and I would be pleased to take your questions.

**The Chair:** Thank you, Mr. Burney. We appreciate your presentation.

We'll go to our first round of questions, starting with Mr. Davies.

**Mr. Don Davies (Vancouver Kingsway, NDP):** First of all, congratulations, Mr. Burney, to you and your team on concluding this agreement. You mentioned that about 50% of Korean-made cars already come in tariff free through the NAFTA. Would you have any information, and could you undertake to provide that data to this committee?

**Mr. Ian Burney:** Yes.

**Mr. Don Davies:** Thank you.

You also made reference to the transitional safeguards that are meant to protect us, for at least two years if I'm reading correctly, against surges in imports. What percentage of increase in Korean-made automobiles, for example, would DFATD consider a surge that might trigger the invocation of the transitional safeguards? Do you have a figure in mind?

**Mr. Ian Burney:** On the first point, it's actually for much longer than two years. The period in which a safeguard can be invoked is the tariff phase-up period plus 10 years, up to a maximum of 15. It's actually quite a lengthy period.

In terms of who would determine that, in Canada it would be the CITT, the Canadian International Trade Tribunal. The way it would operate is if an industry or a company felt that it was facing either material injury or the threat of serious injury as a result of tariff elimination in this agreement, it would petition the CITT with that complaint, and the CITT would go about its business and determine whether or not such serious injury is the standard, or threat of serious injury existed. What's also unique about this agreement is the possibility of having provisional measures invoked before the full inquiry has been completed. Normally the inquiry takes over 200 days. Under this agreement if the claimant wished to pursue this as a critical issue, we could do so in 65 days and get a preliminary decision.

**Mr. Don Davies:** I just want to make sure I understand it, and I'll use auto as an example. Are you saying that the protection in this agreement against a potential surge in Korean-made auto products would last for the three-year tariff elimination plus 10 years? Is that how long the auto sector could invoke the potential protection against surges?

**Mr. Ian Burney:** The period in which a safeguard action on autos could be taken would be the ten-plus-three years, but the measure itself initially could be for only two years with the possibility of extending it for another two. There's no limitation on the number of measures that could be taken during that 13-year period.

**Mr. Don Davies:** If I understood your answer, there is no set number that would be determined by this body depending on the submissions made to it.

**Mr. Don Davies:** There's no hard right line.

**Mr. Don Davies:** Okay. Thank you.

Right now, as we all know, there is a significant trade deficit between Canada and Korea. I think we did about \$11 billion of trade in 2013, and it's roughly 2:1. I think we imported \$7.3 billion and we exported somewhere around \$4 billion. You anticipate there's going

to be an increase in Canada's GDP. Do you have any projections on what will happen to the trade deficit between Canada and Korea as a result of the implementation of this agreement?

**Mr. Ian Burney:** We don't have projections that focus on the balance. We have projections that focus on the increase in exports. Our projection is that our exports would increase by \$1.7 billion, and I think the model projects that Korean imports would increase by \$1.4 billion. All else being equal, that would lead to a slight narrowing of the trade deficit.

**Mr. Don Davies:** You don't see, as a result of signing this agreement, a disproportionate increase in imports from Korea as opposed to exports.

**Mr. Ian Burney:** The model actually suggests that the exports would grow at a faster rate than the imports would.

**Mr. Don Davies:** Okay. Thank you.

Mr. Burney, I'm curious about Korean labour costs. In the course of all these lengthy negotiations, how did Korean labour costs compare with Canadian labour costs? I'm thinking in the context of, say, the auto sector or the aerospace industry or other machinery manufacturing industries. Did you take a look at that?

• (1645)

**Mr. Ian Burney:** Indeed. The Korean minimum wage is currently 41,680 won, which at our current exchange rate works out to \$5.54 an hour or roughly half of, I think, prevailing minimum wages in the Canadian context. But in the auto sector, the averages are closer to what they are in Canada. In fact, by some measures, auto wage packages in Korea are higher than they are in Canada.

I'll ask my colleague Pierre if he has anything he wishes to elaborate on.

**Mr. Pierre Bouchard (Director, Bilateral and Regional Labour Affairs, Department of Employment and Social Development):** No. I'll just confirm it. That's exactly the case for the wages in the auto sector.

**Mr. Don Davies:** Could you provide the committee with an updated estimate on the number of jobs that are expected to be created resulting from this trade agreement?

**Mr. Ian Burney:** The modelling projection from the chief economist does not include a projection on jobs. I think the model assumes full employment, and that's how it generates its figures.

The practice that it has occasionally used is that you take the GDP figure and then take that as a percentage of total employment in the economy. I think that works out to roughly 10,000. You may have seen the figure of 10,000. That's where it would come from. That's the equivalent of what a GDP increase of \$1.7 billion would generate.

**Mr. Don Davies:** I see.

In your view, does the Canada-Korea agreement fully protect the right of Canadian governments to legislate and regulate in the public interest? I'm thinking of the ISDS provisions. I'm wondering if you might point to where some liabilities might exist for a government in the public interest legislation and regulation. Are there any weaknesses, in other words, in terms of our ability to legislate?

**Mr. Ian Burney:** I don't believe so. I think this agreement, like all of our agreements, completely protects the abilities of government to regulate in the public interest. I don't anticipate there would be any liability or exposure on that front.

**Mr. Don Davies:** It's tough to compare the auto provisions of this with KORUS, but I know that the Americans got a snap-back provision in the case of a surge in auto imports from Korean manufacturers. Also, their tariff phase-out is five years.

What is the tariff phase-out for Korea in terms of auto imports from the U.S.? When does the Korean tariff come down?

**Mr. Ian Burney:** Half on implementation and the other half after five years, to match the phase-out on the other side.

**Mr. Don Davies:** Whereas ours is immediate?

**Mr. Ian Burney:** No. Our tariff will be phased out in three years.

**Mr. Don Davies:** I'm sorry. The Korean tariff comes out—

**Mr. Ian Burney:** Immediately.

**Mr. Don Davies:** Yes, immediately.

Are there any measures being contemplated to encourage Korean auto production in Canada? One of the big concerns is that they don't have any footprint in Canada. We know they have plants in the U.S. and Mexico. Did you have any occasion to determine any policies that we might use to encourage those manufacturers to locate here and create jobs?

**Mr. Ian Burney:** I can tell you that the government at all levels tries to encourage investment from Korea, including in the automotive sector. I know that's a pitch our minister has made to his counterparts. It's a point that I've made when I've been dealing with the Koreans, that it would be very helpful if there could be investment. The answer back is that these are private companies and they make decisions on the basis of commercial considerations.

Ultimately, I think it's all of the steps that the government continues to take to strengthen Canada as an investment destination that will facilitate that. It has certainly been working in other sectors. As you know, the level of Korean investment in Canada is about 10 times higher than our investment in Korea.

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

We'll move on to our next participant, Mr. O'Toole.

**Mr. Erin O'Toole (Durham, CPC):** Thanks very much, Mr. Burney, to you and your team for appearing today. Congratulations on the final outcomes and the bill that's before Parliament. I'm sorry for the delay earlier. I appreciate your patience. The delay actually leads to my first question.

Some Canadians may wonder why, so quickly following the visit of President Park, we are eager to get this through the House, through the Senate, and ratified by January 1. Regarding that January 1 ratification and tariff change rates, could you speak to why, if we're

going to ratify, doing so before January 1 is very important for the economy?

**Mr. Ian Burney:** As I indicated, Canadian exporters are suffering now from the competitive impact of Korea's deals with the United States and Europe. There's also a very real probability that Korea's new deal with Australia will come into force on January 1 or thereabouts, so it's really about the imperative of levelling the playing field as quickly as possible. Now, on January 1, you will see the next tariff cuts under the KORUS agreement; so to the extent that tariffs are being phased out under that agreement, that's another milestone whereby the competitive pressure on Canadian interests will grow even further.

The stakeholders whom we work with have been very clear in saying to us, "We're already suffering, but we still have a toehold in the Korean market, and if you can get this deal in place by January 1, we can hang on." It's a very important date from the standpoint of our stakeholders, particularly in the agricultural sector.

• (1650)

**Mr. Erin O'Toole:** Thank you. That's clearly what I'm hearing as well, so much so that we had a parliamentary delegation a month ago to deal with Korean legislators and members of their assembly to make sure that the same sort of urgency on ratification exists in their country as well. It's nice to see the all-party support that will allow us to get there, and that hopefully also explains our patience with what's gone on today.

You took us on a nice walk-through of the various sectors that will benefit from this. I think a lot of Canadians would find the comparative tariff rates to be quite stark. The auto tariff Canada imposed that will be phased out is, I think, 4.1%, but you were talking about Korean tariff rates in the teens and in the 200% to 900% range. On a comparative basis, are the tariffs that Korea imposes significantly higher across the board? Does that impact a trade surplus versus a deficit?

**Mr. Ian Burney:** Absolutely, and that is one reason we think the tariff outcomes in this agreement are particularly advantageous for Canada. The average MFN, most favoured nation, rates in Korea are 13.3%, and in Canada they're 4.3%. Across the board Korean tariffs are three times higher.

If you look at special product areas, including areas where Canada has particular export strength—agriculture, fish and forestry products, fish and seafood, a range of manufacturing products—that's where you see very high Korean tariffs. Agriculture tariffs, as I mentioned in my remarks, can be as high as 900%; the beef tariff is 40%; pork is between 22.5% and 25%. These are big numbers, and when we have to face competitors who are going to be coming in duty-free, they're prohibitive. These are big numbers. The fish and seafood tariffs average in the teens, but they run as high as 47%. Again, the lobster tariff is 20%, and this is a business we're trying to grow quickly.

In the industrial sector they tend to be a little bit lower, but we still see tariffs of up to 8% in a lot of sectors and up to 13% in some others. These are very significant sectors, and the fact that tariffs on 90% of our exports will be eliminated on day one means that we can, within a period of a few short months, I hope, level the playing field on the vast majority of our export interests.

**Mr. Erin O'Toole:** Even in your discussion right there of the various sectors and the high rates Canadian exporters face, there's a nice cross-section of the regions represented as well: seafood, industry, agriculture, forestry. This is really a net win for all parts of Canada. Would that be fair to say?

**Mr. Ian Burney:** Absolutely. We've had very strong support from all the regions. I would say that the provinces and territories have all been supportive. Of course, Ontario has expressed some concerns about some of the automotive elements, but with that limited exception, we've had unanimous support from all the provinces and territories across the country.

**Mr. Erin O'Toole:** I would like to ask your perspective on one last part. We've had some discussion of autos. You talked about how some of our competitors with their free trade agreements are seeing a 30% increase in imports. I think you said one in eight new vehicles purchased in South Korea is actually an import.

From a competitive standpoint, with the U.S. in an FTA position with South Korea and Canada not... I'm from a proud automotive area. GM in Oshawa is a big employer in my area, and in Oakville and Windsor, we're proud of our plants. I've said in the House as well that a lot of Canadians don't realize the decisions on the types of vehicles rolling off Oshawa's, Oakville's, or Windsor's lines are made by the parent corporation in Detroit.

What are your thoughts on Canada not negotiating an FTA with South Korea at a time when the parent company deciding whether a vehicle comes off a plant in the U.S. or Canada has less market access in Canada because of a lack of an FTA? Can you talk about our competitive position in autos vis-à-vis that of the U.S., and whether this deal levels the playing field?

**Mr. Ian Burney:** Absolutely. I think this deal and deals like it are vital to ensuring that cars made in Canada have the same competitive access to markets around the world. Otherwise we put ourselves at a disadvantage when we are trying to attract that investment. That's one of the key factors when multinationals are making a decision about where to locate production, so that is an absolutely vital consideration. I think we as a government have to do everything we can to ensure that not only are companies not penalized by locating in Canada, but also that they derive as much preferential access as we can give them to markets around the world. I think that's a very compelling point.

• (1655)

**Mr. Erin O'Toole:** In the case of Ford, for example, deciding whether a vehicle for export will be made by a plant in Michigan or a plant in Canada, the playing field is now levelled and the parent company has a full range of decisions without market differentiation between the Canadian plant in Oakville and the one in Michigan.

**Mr. Ian Burney:** Absolutely. There are many other considerations that will go into where to locate a plant, but I think we as a government certainly want to do everything we can to make sure that discriminatory access to global markets is not one of them.

**The Chair:** Thank you, Mr. O'Toole. You're at seven minutes.

Mr. Pacetti.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** Thank you, witnesses, for coming forward.

Just for the record, Mr. Burney, when would you have been asked to come before the committee?

**Mr. Ian Burney:** You know, we were put on notice a couple of weeks ago that this would be an early priority of the committee, but to be honest, a specific date was not provided until last night. We were basically told to be ready to be here tomorrow.

**Mr. Massimo Pacetti:** Thank you.

Just as a bit of history, how long did it take to negotiate the free trade agreement with Korea?

**Mr. Ian Burney:** We began with an exploratory process in January 2005, so that was nine and a half years ago. Formal negotiations began in July 2005, so there has been just under nine years of negotiation.

**Mr. Massimo Pacetti:** Okay.

I was just looking at an article in the paper which said that the congressional research office in Washington said that U.S. goods exports to South Korea decreased by 5% in the period between 2011 and 2013, whereas the U.S. goods trade deficit with South Korea worsened during the period and imports from South Korea rose 11%.

Free trade agreements are great. Everybody is in favour, and especially the NDP with this one, but how do we make sure Canada comes out a winner? Obviously your numbers indicate that we will be increasing trade, but how do we make sure it doesn't increase only one way?

**Mr. Ian Burney:** If we look at the figures on what's happened between Korea and the U.S., it's true that U.S. exports declined by about 5% in the first two years, but that's against a backdrop where overall Korean imports from the world dropped. Basically, the Americans held their own at a time when Korea was importing less from the world.

Now, if you look at that same period, our exports fell by a third. Our exports plummeted. It's the comparison that I think is relevant, and I think the difference in tariff treatment is one of the important reasons.

**Mr. Massimo Pacetti:** What would be the indication to have Korean imports increase?

**Mr. Ian Burney:** Korean imports into the United States went up somewhat because the U.S. economy was recovering, but what's interesting to note is that the two areas where they grew the most were autos and ICT goods. The auto tariff hasn't come down yet under KORUS, and ICT was duty-free to begin with. So the increase in Korean exports to the United States are not relevant to KORUS.

The other point that's often forgotten with those statistics is that the U.S. runs a very large services surplus with Korea, to the tune of about \$10 billion. Those figures are only on the goods side. If you bring in the services side of the equation, the picture looks very different.

**Mr. Massimo Pacetti:** That's a good point.

That leads me to my next question about what is better: are we looking to increase our trade numbers or our investment numbers? You were saying that Koreans invest much more than Canadians, but I would imagine it's because Koreans have more money than Canadians would, in terms of availability.

**Mr. Ian Burney:** I think a lot of different factors go into investment decisions. We would like to see an increase in trade and investment, and in both directions. We would like to welcome more Korean investment in Canada and we would like to—

**Mr. Massimo Pacetti:** Is there are target? Do you set a target?

**Mr. Ian Burney:** No, but what we do is we create the conditions to maximize the opportunities. I think the investment protections that are built into this agreement will make it more desirable to invest in both directions, particularly for Canadian companies which may be a bit wary about entering the Korean market. I think having the state-of-the-art investment protections may help.

**Mr. Massimo Pacetti:** Okay.

I don't believe too many Canadian companies will be able to supersede the advantages the Americans have in certain areas. You mentioned that Australia might be one of the countries also coming in on January 1. Are there other countries where we'll be able to get a foot-up? Europe already has free trade. With what other countries will we be able to get a foot-up, and in which industries?

**Mr. Ian Burney:** If you're talking about Korea, it's negotiating with a number of other countries right now. The agreement with Australia is done and will come into force soon. They're also negotiating with China. They're negotiating with New Zealand. The New Zealand deal is close, we're told.

I think over time Korea will negotiate more and more trade agreements, and that makes this one even more vital. If you're asking about Canada, we have a wide range of negotiations ongoing under the global markets action plan.

• (1700)

**Mr. Massimo Pacetti:** Will any of those trade agreements be, and I don't want to put words in your mouth, more beneficial? For example, if China were to use heavyweight tactics, would they be able to negotiate a better deal with Korea and leave Canada on the outs? Or is it tariff-free is tariff-free?

**Mr. Ian Burney:** To date China doesn't have a record of a great many free trade agreements, and those they do have tend to be quite a bit lower in ambition than the ones that we've historically negotiated. I know that the Koreans are having some challenges in negotiating with China. I think it remains to be seen what might come out of that process.

**Mr. Massimo Pacetti:** Okay.

Now, Korea is not part of the TPP, but in your opening remarks you mentioned something about this free trade agreement benefiting our TPP negotiations.

**Mr. Ian Burney:** To the extent that current TPP members such as Japan compete in our market against Korea, they will be more motivated to conclude a negotiation with us inside the TPP. Japan is a very direct competitor of Korea's in the automotive market but in other sectors of the Canadian economy, so having this agreement on the books creates a competitive pressure on Japan. Basically any

country that competes with Korea in our market would now be more motivated to seek an agreement with Canada.

**Mr. Massimo Pacetti:** Okay. Thank you.

**The Chair:** We'll now move to Mr. Cannan.

**Hon. Ron Cannan (Kelowna—Lake Country, CPC):** To Mr. Burney and your team, thanks for your great work.

It was a pleasure and an honour to be with the Prime Minister and Minister Fast to see President Park in Seoul, Korea, in March for the initial signing and then recently inviting President Park here. One of the big wins for my constituents in Kelowna—Lake Country is the reduction of tariff on wine. Minister Fast was out in March to meet with the winery. It's not only wine but also blueberries where he comes from: Abbotsford.

Perhaps you could share a little bit about what the implications are here. I think about 95% of the wine market right now is icewine, but in terms of the potential for the wine, what is the tariff reduction now, and what will it be reduced to on implementation date?

**Mr. Ian Burney:** Thank you very much.

Indeed, Korea is a significant market already for Canadian wine, particularly icewine, but the potential is much, much greater. At the moment, the icewine tariff is 15%. That will be eliminated on implementation.

You spoke primarily about wines, but rye is also a growing business for us. We also have protections on rye in this agreement from the standpoint of geographic indications, but there's a 20% tariff, and that will also be eliminated immediately.

With respect to other table wines, the tariff elimination period, I believe, is three years.

Within three years, all Canadian wines will be duty-free in the Korean market, but the most important one duty-free immediately.

**Hon. Ron Cannan:** I have the largest cherry grower in my riding, too, and China has made it a very happy time for them this summer. The cherry growers are there and all so excited about the opportunities in the gateway to the Asia-Pacific, with its 50 million-plus population.

My colleague Mr. Davies talked about the investor-state provision within this trade agreement. Maybe you could elaborate on a little of the difference as to why the investor-state provision is so important and also how it's different from the FIPA. This is market access, whereas FIPA isn't. Sometimes there's some confusion in the public as to why it's so important to protect our investors and specifically Canadian businesses.

**Mr. Ian Burney:** Sure. The investor-state aspect is a core element of our mandate and our objective in any investment negotiation, whether it's as part of a stand-alone FIPA, a foreign investment protection and promotion agreement, or as part of the investment chapter in an FTA. This is what gives our investors recourse to impartial dispute settlement to ensure that the rights we negotiate for them in the investment agreement are enforceable. From the standpoint of our stakeholders, this is an absolutely key element of our investment negotiations.



By and large, the terms don't differ all that much, I would say, between foreign investment protection agreements and FTAs. You have a variation in the termination provisions, basically because we feel there's a higher risk with a stand-alone FIPA that it could be terminated by the other side than there is with a comprehensive FTA. In an FTA we would typically have a much shorter termination provision.

The substantive obligations tend to be similar. In the case of Korea, I can say that we have state-of-the-art obligations across the board. That's one of the features that I think is strongest in this agreement.

**Hon. Ron Cannan:** My last question has to do with procurement. Under this agreement, Canada and South Korea have deepened their commitments they made under the WTO GPA, which I believe is the agreement on government procurement. On agreeing to lower thresholds for access to central government entities, can you maybe elaborate and clarify for any constituents and folks who are listening exactly what that means and what those thresholds are?

• (1705)

**Mr. Ian Burney:** Sure. The way government procurement access works is that for entities that both sides agree to cover, they set a threshold above which procurements are covered and therefore subject to open competition with the trade partner. In the government procurement agreement at the WTO, Korea and Canada already have a list of covered entities, and the threshold that is set in the WTO is equivalent to roughly \$200,000 at the present time.

Under this FTA, what we've done is reduced in half that threshold; all of those covered entities at the central government level only—in the FTA, we haven't gone into sub-federal coverage—the thresholds are reduced in half. This means that all of the procurement that's now above that lower threshold is subject to open competition. Canadian companies have an ability now to compete on all of the procurements for all of those government entities in Korea, for a much higher volume of procurement.

**Hon. Ron Cannan:** I have one last quick question.

For the timeline, my colleague mentioned that time is of the essence. What do we have to do in order to get this implemented by the end of the year, by January 1, 2015?

**Mr. Ian Burney:** The implementing bill in Canada needs to be passed by Parliament, and then we'll take the final steps to be able to ratify the bill. On the Korean side, they have to go through the same process in their National Assembly.

We're anticipating that the implementing bill, or the ratification bill, will be tabled sometime in the near future. We don't have an exact date. There has been a bit of an impasse in the National Assembly on the Korean side that relates to the tragic ferry disaster from back in April. It appears that this is being resolved. Our hope and expectation is that the implementing bill for the Canada-Korea free trade agreement will be tabled in the National Assembly in the coming days, and that it also will move on a very quick track towards being adopted.

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

**The Chair:** You have another minute if you want it, Mr. Cannan.

**Hon. Ron Cannan:** Okay. I thought I only had five minutes. I appreciate that.

Again, on one element of the benefits, I know that some of the folks were with us, like Joy Nott, representing the importers and distributors, and there are the Canadian manufacturers, but there's the agriculture industry, especially pork and beef, and what are we doing in regard to helping our Canadian businesses take advantage of this new Asian gateway market? It is new for a lot of people. I think almost 85% or 90% of our free trade right now is with the U.S.

In regard to trying to get Canadian businesses to take advantage of these new trade agreements, maybe you could expand on what you and your colleagues on the ground, the trade commissioners, are doing to help Canadian businesses.

**Mr. Ian Burney:** Sure. Those are among the areas where we expect to see some very significant benefits.

I mentioned that the beef tariff is at 40% and we've achieved a tariff phase-out outcome that is equal to what the Americans got, over 15 years. In the case of pork, most of our exports are of frozen pork, and they came under a line where we managed to get a five-year phase-out. That's very aggressive and will help reposition the Canadian companies in those two sectors.

Clearly, once the agreement is in place, the whole effort has to shift to marketing and promotion. Our department is already involved in that. I know that Minister Fast has been out talking up the agreement and the opportunities. I believe other ministers have been doing the same.

The trade commissioner service, which I am not directly responsible for but is the other part of the trade business line in our department, is actively now looking at how to ramp up its promotional efforts to help and to work with Canadian business to take advantage of the opportunities. It's a very important follow-on phase that is in fact happening already.

**The Chair:** I'll have to step in here.

Ms. Liu.

[*Translation*]

**Ms. Laurin Liu (Rivière-des-Mille-Îles, NDP):** Thank you for appearing before us this afternoon.

I want to talk a little bit about Canada's aerospace industry.

When Korea signed free trade agreements with the United States and the European Union, Canada's aerospace exports dropped by 80%, going from \$180 million to barely \$35 million in 2012.

Has the department been able to determine the market share that Canada's aerospace sector lost in Korea in recent years?

**Mr. Ian Burney:** Thank you.

I don't believe we conducted a study on that sector specifically, but we are aware that we have already lost a third of our market in South Korea, which is one of the reasons why we feel so strongly about the agreement being ratified. The industry was very much behind the agreement.

**Ms. Laurin Liu:** Does Canada's aerospace sector still have a foothold in Korea? And if so, is there one specific product that does better than the rest?

**Mr. Ian Burney:** Are you referring to exports?

• (1710)

**Ms. Laurin Liu:** Yes, in the aerospace sector.

**Mr. Ian Burney:** Yes, Canadian firms currently export a number of aerospace products to South Korea, including simulators. They have been tasked with setting up a training centre in Seoul. What's more, 100% of Korean tariffs will disappear once the agreement comes into force.

**Ms. Laurin Liu:** That's excellent news for the industry, which is vital to my region as well as Montreal.

Has the department done any forecasting in terms of the possibilities around increasing Canada's aerospace market share in Korea after the free trade agreement comes into force?

**Mr. Ian Burney:** As I mentioned, we anticipate our exports will rise by \$1.7 billion. But I don't think we have a breakdown by sector. I can't give you an exact figure for the industry, but it will be a portion of that \$1.7 billion.

**Ms. Laurin Liu:** Do you know whether that will allow Canada's industry to regain the market share it lost, and if so, how long will that take?

**Mr. Ian Burney:** As I said earlier, the tariffs will disappear the first day the agreement comes into force. So I hope it won't take too long after that.

I will ask Nadia to expand on that.

**Ms. Nadia Bourély (Director, Trade Policy and Negotiations, Asia Division, Trade Negotiations Bureau, Department of Foreign Affairs, Trade and Development):** I would just like to point out that the aerospace industry expressed strong support for the agreement with Korea. And the Aerospace Industries Association of Canada was very much in support of the agreement.

**Ms. Laurin Liu:** Yes, I'm aware. I read the remarks in that connection. This is wonderful news for the industry.

My next question has to do with the auto sector.

Let's say a car is manufactured in Canada and then exported to the United States. If that car is then sent to South Korea, will it be subject to the tariffs agreed upon by the United States and South Korea or will the tariffs negotiated by Canada and South Korea still apply?

**Mr. Ian Burney:** If the Canadian car remains duty-free in the United States, the benefits under the Canada-Korea free trade agreement would apply, but if the car is intended for sale in the United States, it would not be covered. Transshipment is not possible.

**Ms. Laurin Liu:** Very well. Thank you.

Can your department share with the committee any information it has on Canadian wine and spirit exports to the Korean market? I know it's covered under an agreement.

**Mr. Ian Burney:** Do you mean the amount?

**Ms. Laurin Liu:** Yes. Have you assessed the market share that Canadian products could gain?

**Mr. Ian Burney:** I'm going to ask my colleague from Agriculture and Agri-Food Canada to answer that question.

**Mr. Denis Landreville (Director and Lead Negotiator, Regional and Bilateral Agreements, Trade Negotiations Division, Market and Industry Services Branch, Agriculture and Agri-Food Canada, Department of Foreign Affairs, Trade and Development):** Yes, thank you.

We didn't study that sector specifically. But a number of studies are done by the private sector, and the industry itself does growth analysis.

Looking at icewine alone, I can tell you that exports between 2010 and 2012 were at about \$400,000. It's around \$350,000 for rye and whiskey. We are going after those markets already. Icewine is a major market, and the tariff will disappear as soon as the agreement comes into force.

[English]

**The Chair:** Thank you.

We'll move on to Mr. Shory, please.

**Mr. Devinder Shory (Calgary Northeast, CPC):** Mr. Chair, congratulations on your appointment.

Mr. Burney, thank you to you and your team for bringing us to the point we are at today on this FTA. I also want to thank you for sharing the information on why it is important and why there is a rush to study this legislation quickly so that we do not hit the January date when the United States and the EU will have another round of reductions in tariffs, etc.

We all know, Mr. Burney, that with a population of 50 million and a \$1.3 trillion GDP, South Korea is the fourth largest economy in South Asia. I have heard again and again that South Korea can also serve as a gateway to Asian markets. I would like you to elaborate on what that means for Canadian companies and Canadian businesses, particularly as it relates to global value chains. Also, can tell us whether this agreement will possibly increase our trade with other Asian markets? What is the potential there?

• (1715)

**Mr. Ian Burney:** I think that is a very important strategic dimension to this agreement. We all know the major Korean conglomerates, the chaebols, have a massive footprint throughout the globe, but especially in Asian markets like China, Japan, and elsewhere. As for the extent to which this agreement can help position Canadian companies and SMEs to participate in those value chains, it will open doors not just in the Korean market, but throughout.... I'm aware of a partnership between IMAX and a major Korean company that involves building theatres throughout China. This is potentially limitless, but to the extent that the agreement encourages Canadians to develop business in Korea and they form relationships with these massive global companies, the potential is limitless.

**Mr. Devinder Shory:** I remember that IMAX also bid on some theatres in India as well, as a matter of fact.

Yesterday during my speech, I mentioned that with this agreement Canada has secured greater opportunities related to temporary entry for businesses and their executives than those enjoyed by South Korea under other free trade agreements with the United States and the European Union. What kind of advantage will this provide to Canadian businesses and business persons needing to move between the two countries so frequently to conduct their business?

**Mr. Ian Burney:** That's absolutely true. In fact in this agreement we have the most ambitious provisions on temporary entry for professionals and other service providers that Korea has ever agreed to in any FTA. This goes far beyond what they have in KORUS. Well, in fact, they have nothing in KORUS.

In the case of their agreement with the European Union, it's basically a reiteration of their existing WTO commitments, nothing more.

We have state-of-the-art provisions that cover important professionals like engineers, accountants, veterinarians, and so forth, who will be able to enter the Korean market to perform their services without the need for a labour certification test. That's the key documentary requirement that our professionals will not require. These commitments of course were made on a reciprocal basis, but this is great news for Canadian companies seeking to access that market. Independent professionals can do that. They can also come in as contract service providers. There's a specified list of covered professionals in the agreement, and those who are on the list will have much easier access to the Korean market.

**Mr. Devinder Shory:** I know that fortunately all the parties are supporting this FTA, that it is a good agreement and that time is of the essence in this matter. I wonder if the stakeholders have been openly calling for the ratification of this agreement because they also agree it will put them on a level playing field. Did you hear anything from the stakeholders? Are they also on the same page as the government and in this case all the parties?

**Mr. Ian Burney:** Yes. We're hearing loudly, clearly, consistently, and frequently, "Please have this agreement in place by January 1." There could be no clearer message from the business community in Canada in terms of what their interests are in this agreement and on the importance of moving it quickly.

**Mr. Devinder Shory:** My colleague Mr. Cannan talked about some tariffs on pork production—

**The Chair:** It will have to be quick, Mr. Shory.

**Mr. Devinder Shory:** Quickly, Mr. Burney, I'm from Alberta and I know that the reduction in tariffs will be 30% on pork products and up to 72% on beef products. Could you tell us whether you expect these reductions would be implemented as well as how these reductions would affect Alberta's hog and beef industry?

**The Chair:** Actually, Mr. Shory, we'll have to move on to the next questioner.

**Mr. Devinder Shory:** Oh, come on.

**The Chair:** If you could submit that to him in writing, that may be appropriate.

Mr. Morin.

[*Translation*]

**Mr. Marc-André Morin (Laurentides—Labelle, NDP):** Mr. Burney, Canada's hog and beef cattle farmers suffered significant losses when Korea signed agreements with their competitors. So did the aerospace sector.

Have you done any estimates on what those losses represent for Canadian exporters? Our competitors have the advantage; what is that costing us?

• (1720)

**Mr. Ian Burney:** Thank you for the question.

As far as pork is concerned, we lost nearly half the market we had in 2011. Denis can give you more details on that.

It was a different story in the beef industry. We lost that market because of the mad cow crisis 10 years ago. It takes time to rebuild a market. But that is hard to do when there is a difference in tariffs and no free trade agreement in place. Thanks to the agreement, we have a chance to re-establish our beef export market in Korea.

Now I'll turn it over to Denis.

**Mr. Denis Landreville:** The pork industry is quite robust. It's a very significant market. Pork is one of our main export markets. Since our free trade agreements with the U.S. and Europe came into force, our pork exports have fluctuated a lot. Our exports rose as a result of an epidemic that affected Korea's pork market. Beef and hog farmers are telling us they are at a disadvantage when it comes to their competition in the U.S. and Europe. In the medium and long terms, they expect their market share to decrease. They feel very strongly about the need to fix the situation so they can once again be competitive.

**Mr. Marc-André Morin:** Mr. Burney, what barriers will our exporters face when trying to regain lost market shares? Time also plays a role. No doubt, they still have ties with their customers there. Are there other barriers they will face, or do they simply have to be patient? Will they need the government's help when it comes to re-establishing contact with people there and building new ties to make up for their losses?

**Mr. Ian Burney:** For the time being, tariffs and the differences between Canadian and American products are the only problem. The Korean market is very receptive to Canadian goods, as they are considered to be of very high quality. There is no issue with that. To my knowledge, no non-tariff barriers exist in the market at the moment. Denis might be able to elaborate on that.

What's important is for Canada to be on equal footing with other countries as far as tariffs go. And that will happen the day the agreement comes into force. At that point, we will see tariffs drop.

**Mr. Denis Landreville:** Indeed, right now, the biggest factor is the tariff differential. Based on what those sectors are telling us, a slight difference exists between Canadian prices and those of their U.S. and European competitors, and that is having a big impact.

**Mr. Marc-André Morin:** Mr. Landreville, I know the Japanese have extremely demanding sanitary standards. We are wondering—  
[*English*]

**The Chair:** I'm sorry, but we're going to have to finish there, Mr. Morin. We have to move on to the next questioner.

Mr. O'Toole, please.

**Mr. Erin O'Toole:** Mr. Chair, I have a quick question, and if I have any time left, I'll share it with Mr. Richards.

I'm following on Madam Liu's questions on aerospace specifically. When I was in Seoul last month, pushing deal ratification on their end, I had the opportunity to tour CAE's facility near Incheon. It's a major investment on their part to build a hub there, not just for Korean Air Lines but for some of the others in the charter industry serving Southeast Asia and the rising trends there.

I know that for flight simulators there's a 5% tariff reduction. It's an important part of our aerospace industry. Mr. Burney, can you talk about some of the investments that companies like that might make in South Korea to use that as a springboard to serve the wider Asian economy? Do you know of any other companies that would be taking advantage of it like this?

• (1725)

**Mr. Ian Burney:** I think that's exactly the kind of increased interaction we would like to see generated by this agreement.

In the aerospace sector, I'm not aware of other investments at the moment. There may be. We can certainly check our information and get back to you on that. I know that in auto parts sector, for example, we have a major investment presence in the Korean market. Magna, I believe, has five facilities already serving the burgeoning Korean auto industry, and I think that's possible in a wide variety of other sectors.

Our investment numbers for the moment are not all that high, but there are significant opportunities.

Bombardier has been involved in a major LRT project on the outskirts of Seoul, and it's now a service provider for that on a long-term basis. I think it has also had some success in terms of the sales of airplanes.

Korea will be a tremendous growth market for I think a whole range of aeronautics products going forward, but on the specific business decisions that companies make as to whether to serve a market on an export basis or to invest in a market, that will vary very much from sector to sector.

**The Chair:** I'm going to have to step in. It's 5:25 p.m., Mr. O'Toole, so I'm going to suspend this meeting for a minute so we can clear the room. Then we'll go in camera and discuss moving further. We'll suspend this meeting for now.

[*Proceedings continue in camera*]

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