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The Honourable Mark Eyking

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•(0845)

[English]

The Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): Good morning, everybody, and welcome back. I hope everybody had a productive week in their riding.

This morning we're going to continue with our study on the TPP, the effects it will have for Canadians and businesses, and the opportunities.

We seem to be moving along pretty well with our committee. I find that when we're dealing with clusters, it seems to work well. We've done many so far, and today we're going to be talking about the auto industry. We're going to have two parts to this. Starting off this morning, we have Unifor and Ford. We usually give the witnesses five minutes, but if it's a little under or a little over, we're open to that and whatever information we can get. Then we'll start our rounds of questioning.

Who wants to go first, Unifor or Ford?

Mr. Jerry Dias (National President, Unifor): My illustrious friend can start.

The Chair: Okay. Go ahead, then, Madam Craig.

Ms. Dianne Craig (President and Chief Executive Officer, Ford Motor Company of Canada Limited): Thank you for the opportunity to provide Ford of Canada's views on the automotive terms in the Trans-Pacific Partnership agreement. Ford Motor Company is a global automotive industry leader founded in 1903 that today employs 199,000 people in 67 plants worldwide to manufacture and sell vehicles in more than 200 international markets. Today, on a global basis, Ford exports over 40% of the vehicles it produces worldwide.

In Canada, Ford has been part of the economic fabric for 112 years, providing high-quality jobs that build and sustain Canada's middle class. Today, Ford of Canada employs over 8,200 men and women in three vehicle assembly and engine manufacturing plants, two R and D centres, and two parts distribution centres. Ford purchases over \$5 billion annually from parts suppliers across Canada, and Ford's network of 425 dealers employs 19,000 employees in communities across Canada.

Since 2000, Ford has invested over \$12 billion in our Canadian operations, including \$700 million in Oakville, to produce the Ford Edge for global markets, including the right-hand drive and diesel vehicles that today we are exporting to Europe. Trade and trade policy is hugely consequential to the success of Ford's Canadian operations since 100% of our engines and 90% of our vehicles are

exported around the world, including to markets like China, South America, and now Europe.

Ford was one of the first companies to publicly support CETA. At Ford, we are not just philosophers of trade, we are practitioners of trade. That is why we have supported every free trade agreement ratified by the Canadian government, with the exception of the Canada-Korea Free Trade Agreement. In fact, it was the auto sector, in the 1965 Canada-U.S. Auto Pact that became the foundation for the Canada-U.S. Free Trade Agreement, and then the North American Free Trade Agreement. Today, as a result of these historic agreements, Canada's auto industry is fully integrated in the North American auto industry, allowing Canada to achieve economies of scale that drive global competitiveness.

Canada's auto industry is at a very important inflection point in the highly competitive global industry, and trade policy matters to Canada's future success. Trade agreements open new markets for Canadian-produced goods and level the playing field for Canadian manufacturers and workers. Unfortunately, the auto terms that Canada agreed to in the TPP do not meet that test.

In Ford's perspective, the TPP falls short on two very important points. First, Canada accepted an accelerated tariff phase-out period of five years, or five times faster than the U.S. tariff phase-out period of 25 years for cars and 30 years for trucks. Both of the U.S. tariffs are back-end loaded. Second, the TPP fails to include strong and enforceable currency disciplines to address currency manipulation as defined by the International Monetary Fund.

Currency manipulation is perhaps the most significant trade barrier and risk that Canadian exports from any sector face around the world. When governments intervene to depress the value of their currency in order to increase export competitiveness for domestic manufacturers and decrease imports, they are widely understood to be manipulating their currency. In the context of a free trade agreement, currency manipulation can completely offset the benefits of tariff reductions by simultaneously creating an unfair export subsidy and an import surcharge. World trade rules have long obliged countries to refrain from currency manipulation because of the potential to distort trade. Yet, despite these rules in place at the IMF and the WTO, no multilateral enforcement actions have been taken in the seven years this global economic system has been in place—not one single multilateral enforcement action.

Canada's vehicle sales market is one of the most open vehicle markets in the world, with 83% of the vehicles sold in Canada being imported from another country. Yet markets like Japan and South Korea remain closed to vehicles produced in Canada. In 2015, Canada imported 134,000 vehicles from Japan, but only 500 Canadian-produced vehicles were exported to Japan. Closed markets can only be opened by achieving the right terms in trade agreements that eliminate all trade barriers, including currency manipulation.

The TPP auto terms will not increase Canadian auto exports in any meaningful manner, but instead will put Canada's automotive manufacturing footprint at further risk. It is for these reasons we are recommending that Canada not ratify the TPP in its current form.

● (0850)

Instead, Canada should play a constructive role in working with other TPP members to make this deal better for Canada's auto sector by matching the U.S. auto tariff phase-out periods. Canada should also seek to make the TPP better for all Canadian sectors by including strong and enforceable currency disciplines. From the start, Ford of Canada has played an active and constructive role in articulating the trade policy issues that the TPP agreement needed to address in order to support Canada's auto sector. We will continue to play this role, not only because 90% of our vehicles and 100% of the engines that Ford builds in Canada are destined to be governed by the policy and rules of international trade, but also because we know there are other Canadian companies and other workers that will not have a fair chance to compete if the TPP is ratified in its current form.

In summary, free trade must truly be free, with companies and industries succeeding on their own, not with a government thumb on a scale. If a trade agreement with accelerated auto tariff phase-out and without strong and enforceable currency disciplines were approved, it would send a message that the status quo is acceptable, that countries can continue to subsidize their exports and undercut Canadian manufacturers and workers while keeping their domestic markets closed to Canadian exports.

We can do better. We should do better.

Thank you very much.

The Chair: Thank you very much, Ms. Craig, for that in-depth report.

I would also like to welcome Elizabeth May from the Green Party. As everybody knows, all members of Parliament are allowed to sit around this table.

We're now going to move over to Mr. Dias from Unifor.

Mr. Jerry Dias: I shall do my best to stick within the five minutes.

Good morning, Mr. Chairperson and members of the committee. My name is Jerry Dias, and I am the national president of Unifor, which is Canada's largest trade union in the private sector. With me is Angelo DiCaro. He's in our union's research department.

Unifor represents over 315,000 workers across the country, in each province and in nearly every industry. Our union has paid close attention to the proposed TPP agreement and the negotiations that

have taken place since 2012. Our union, like most Canadians, viewed these negotiations from the sidelines. I'm glad the current government has promised public consultation on the deal. We hope these consultations are meaningful and go beyond the back rooms and boardrooms and into local community centres and town halls.

We're also glad the government has proposed to release an economic impact assessment of the TPP. I would urge the government to ensure that this study is done independently and is using a credible assessment model. We don't need another government study that is simply aimed to convince Canadians that all free trade deals are good deals.

As with the Canada-EU CETA, we don't need an economic assessment built on fantasyland assumptions that no one can ever be unemployed, that businesses won't shift capital investments overseas, and that trade flows aren't impacted by exchange rate fluctuations. Canadians need to know the facts about this trade deal. Canadians need to be empowered to decide if the TPP is in fact in our best interest.

One of our biggest concerns about the TPP is that it will undermine investment in our most strategic value-added industries. I hope this committee understands that Canada's manufacturing trade deficit sits at \$122 billion. That's a record, and not one we should be proud of. That deficit has been widening each year since 2004.

At a time when developed countries such as the U.S., Germany, Japan, and others are actively investing in and managing their productive industries, Canada has not followed suit. Cutting tariffs doesn't make an industrial strategy. In fact, it will likely make a bad trade deal even worse.

The auto sector is a case in point. Our auto trade deficit in Canada is \$19 billion. This is a pretty significant drop from the \$14-billion surplus we once enjoyed not that long ago. While we appreciate the need to diversify auto exports away from the United States, the reality is that Canada's current auto exports aren't desired in countries like Japan, Malaysia, Vietnam, Brunei, and even Korea for that matter. Auto exports to these countries are currently non-existent.

So what has free trade done? Well, we're one year into the Canada-Korea agreement. Korea has an economy structured not unlike Japan's. In that first year, as we predicted, Canada's manufacturing exports declined by 3.9% and imports grew by 9%. Our manufacturing trade deficit with Korea grew to \$4 billion—not exactly what Canadians were told would happen.

Much of what the government is banking on in the TPP is that Canada will be granted new access to the Japanese market, particularly for autos. Japan has no import tariffs on autos. The problem with Japan isn't about tariffs. There are deeper structural issues at play, and unfortunately these weren't addressed in the deal.

Despite this, Canada still agreed to accelerate the phase-out of its 6.1% auto tariff with Japan, five times faster than what the U.S. committed to. We accepted the weakest rules-of-origin thresholds we've ever negotiated, rules struck in a side deal between the U.S. and Canada, where we had no input at all.

I hope the committee understands our concerns that thousands of auto jobs will be at risk from the TPP. Without a federal auto strategy, future investments will be hard to come by.

Now, I want to stress that Unifor's members' concerns on the TPP extend beyond auto. For instance, telecom workers worry that the TPP will broker new rules on foreign ownership. Forestry workers want clarification on whether raw log export regulations will be protected. Health care workers are furious that drug costs will likely skyrocket. Media workers wonder if we've given up our right to regulate online TV services. Food processors are concerned that facilities may close on account of more dairy imports. The list goes on. There appears to be far more questions over this trade deal than answers.

Minister Freeland has indicated that Parliament will either accept the TPP as is or reject it. There's no going back. Telling Canadians to take it or leave it is a tough proposition. The truth is that Canadians have been poorly informed of this deal. That's partly because it has been kept secret for so long.

Meaningful public consultation informed by credible, independent research is a must, but if meaningful changes cannot be made to the TPP at this point, then it is not a deal our union can support.

Thank you for your invitation and the opportunity to speak with you today. We're happy to take any questions you may have.

• (0855)

The Chair: Thank you very much, Mr. Dias. You're right on time. That's very good.

Mr. Jerry Dias: That's a first.

Some hon. members: Oh, oh!

Mr. Jerry Dias: I was under strict instructions to read the speech, not wing it, or we'd be in deep trouble.

Some hon. members: Oh, oh!

An hon. member: There will be time for winging it, too.

The Chair: I'll just remind witnesses who are here that you're welcome to stay for the second half, because we have more auto industry coming for the second half.

We're going for 15 minutes for this whole round, and it will start off with six minutes for each witness. We're going to start off with Mr. Van Kesteren from the Conservative Party.

Mr. Dave Van Kesteren (Chatham-Kent—Leamington, CPC): Thank you, Chair, and thank you all for being here this morning and

discussing this important topic. It's certainly going to have some benefits.

Any time we embark on something, there's always a risk. We do that every day when we go outside and walk on the street, I suppose, but we know that doesn't stop us.

I want to start my questions by talking about the things we did as a government in the past to help the industry. I'll direct this to the Ford Motor Company. When we were first elected, we were told it was important that we start to hone in and get things like harmonization in place. We needed a bridge. We needed investments in the industry for the technology.

The other thing we were quick to do, too, is to make sure that we are competitive here in the Canadian marketplace, and that companies like Ford could take advantage of a lower tax burden. But part of that process as well was to expand our markets. Would you not agree that this strategy is the right strategy in place to make for a healthy market in an automotive company like Ford?

• (0900)

Ms. Dianne Craig: Thank you, sir, for the question.

Yes, I agree, that's the right strategy. I mentioned Oakville. We're really excited about the \$700-million investment in Oakville. CETA was a big reason that we landed that investment in Oakville, because we knew CETA was in the works and the plan was to start to export to Europe out of that plan. If CETA did not happen, that investment would have been at risk. When you think about all the things that matter when we make investment decisions, and certainly for me in advocating for Canadian manufacturing I'm competing with my global colleagues all around the world, it means making sure you have the investments right, you have the labour costs right, you have the harmonization right, the infrastructure right, and that includes trade policy. That's how importantly trade policy matters.

Certainly, when we engage with other trading partners, we want to make sure the markets are open, and we know Japan is closed so we see no opportunity for Canadian exports, which therefore will not lead to any future investment based on the present trade agreement. But, again, I point to CETA because it was a tremendous success story for Oakville. We started shipping to export in December, and right now, as we speak, we plan to ship about 25,000 vehicles over to Europe, and it could be as high as 50,000.

Mr. Dave Van Kesteren: One of the things we hear about regularly is currency manipulation. Again, I can recall in the past when our Canadian dollar was high.

Mr. Dias, I think you would recall those times, too. One of the things the union encouraged the government to do at that time was to try to force that dollar down. I'm not one to agree that we have much control over those things. I think it's the circumstances probably. But today we're at a point where our dollar is very competitive. I'm curious if you don't see that as something that fluctuates and something that's going to change. Although there will be times that our high dollar will hinder us, as we can see the ball rolls and one day we suddenly have this low dollar. Wouldn't that give you an opportunity to compete in the markets like Japan, too, especially now that I think we're at about 74¢ to the American dollar?

Ms. Dianne Craig: The yen right now is 5% lower than the Canadian dollar, so that hasn't helped us. But the one thing about currency.... We believe that the marketplace, not governments, should dictate currency. Certainly, Canada and the U.S., have never manipulated their currency. We know that other countries that are part of this trade agreement have in fact manipulated their currency. That's a real issue we face, and that's why we've been so strong on making sure that we have currency disciplines in place.

The lower dollar definitely helps, but when we're making investment decisions, as Jerry knows, it's on a 10-year horizon, and we know it's going to fluctuate. So it helps, but it's something we look at again over a 10-year cycle.

Mr. Dave Van Kesteren: Some would argue that the Japanese are getting into a tight corner. I think their debt-to-GDP ratio at this point is 237%. Their currency is being affected by that. Wouldn't you agree that a policy that doesn't manipulate the dollar, that doesn't lead to those interest rates—we're talking about negative interest rates in Japan today—is a better policy? Won't that in the long run benefit us and make us more competitive with countries like Japan?

The Chair: A very short answer. You have half a minute.

Ms. Dianne Craig: I'm sorry. I should have introduced Caroline Hughes, vice-president, governmental affairs for Ford Canada.

The Chair: That's fine.

Go ahead.

Ms. Caroline Hughes (Vice-President, Government Relations, Ford Motor Company of Canada Limited): I'm happy to answer that question.

What we're asking for in the TPP is for the IMF principles of currency manipulation to be codified. It does not deal with monetary policy at all; it allows countries to use monetary policy to manage their economy. However, all of the signatories to the TPP, all of the countries that are members of the TPP, have in the past endorsed the IMF's very strict definition of currency manipulation. It is that egregious form of currency manipulation that provides the export subsidy and makes imports more expensive. It closes the market and makes it difficult for Canadian vehicles to compete.

The important thing is that it's not just going into Japan and it's not just vehicles coming into Canada. It's all of the vehicles that we export around the world. Every single market that our Canadian-produced vehicles go to will face these vehicles that are produced in countries with a manipulated currency.

Again, all we're asking for is that the IMF principles be included in the trade agreement and to have a remedy of the tariff coming

back on, being replaced, if currency manipulation, according to IMF, does occur.

• (0905)

The Chair: Ms. Hughes, that was very good information, and good questions.

We're going to move on to the Liberal Party.

Mr. Fonseca.

Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.): Thank you, Mr. Chair.

I'd like to first thank our presenters. Mr. Dias and Ms. Craig, thank you so much. Thank you for the quality work that your members of Unifor do, as well as for the investments that you've made here in Canada. It's great to hear the success that you're having with the exports and what you're doing with the Ford plant in Oakville.

My questions stem around the consultation process and what happened prior to some of the agreements that have been made.

Ms. Craig, in *The Globe and Mail* article that was published last fall, you were quoted as stating that Ford sees the TPP as a setback and that it should have mirrored the United States.

I'd like to know from your perspective and from meetings you may have had with the previous government, what negotiations took place, what meetings, what inputs you had into that process, before coming to that agreement. Could you also let us know what you meant by "setback" as you explained in your presentation?

Ms. Dianne Craig: Let me start with the setback, and then I'll defer to Caroline, because she worked directly with the negotiators.

As I mentioned in my opening remarks, Canadian manufacturing is at an inflection point. In 2014, there was \$17 billion, almost \$18 billion, in auto investments in North America. There was \$10 billion that went to the U.S., \$7 billion to Mexico, and \$750 million to Canada, of which Ford was a part. Now \$750 million is a big number, almost a billion dollars of investments in Canada. But in the scheme of things, \$18 billion, we did not get our fair share. We know that the manufacturing footprint has been shrinking over the last decade, so trade policy matters because it attracts investment.

When we've had some challenges, especially with what's happening south of the border with the aggressive incentives being offered by other jurisdictions, by labour costs in Mexico and other challenges, everything matters. However, trade policy really matters, and that was the last thing we needed in an already very competitive landscape. It certainly didn't help the conversation, and it really hurt the conversation, especially because we felt, as a sector, to not even have the same tariff phase-out that was negotiated with the U.S. sent a message that autos weren't important.

With regard to the consultation process, there was absolutely plenty of consultation that went on. We felt that our voice was at least being heard. It unfortunately in the final analysis wasn't listened to.

I'll defer to Caroline who can speak a bit more about that.

Ms. Caroline Hughes: Certainly.

In terms of the consultation process, both as an industry group and as Ford, we engaged with the negotiators. Again, going back to the integration of the North American market, we felt that this concept of integration of the North American auto industry—Canada, the U.S., and Mexico—was so critically important that we arranged for a meeting of Canadian negotiators in Washington with the USTR, with our auto sector and the U.S. at the table, so that both sets of negotiators heard at the same time about how important it was for us to both land on the same terms.

That happened in 2013. We offered to arrange ongoing joint meetings, because the one thing we didn't want to have happen is the negotiators on either side of the border misunderstanding our position. We wanted to present a united North American front. As I said, we offered to arrange additional meetings, but unfortunately, we couldn't find a date that worked for the negotiating teams. We would have been happy to have that conversation continue.

Mr. Peter Fonseca: Thank you.

Mr. Dias, you made some statements about job losses here in Canada. The number I've been able to find is around 20,000 possible job losses. Can you give us a bit of an understanding of the analysis you did and where those job losses would take place and over how much time?

Mr. Jerry Dias: We were arguing not to change the threshold as it relates to assembly and auto parts assembly in Canada. In the previous NAFTA deal, it was at 62.5% and 60% for assembly in auto parts. We said that whatever you do, don't change it. So of course they reduced it to 45% and then to between 35% and 40%. When you take a look at the thresholds, that's a 20% reduction in thresholds that have to be met, and with a 20% reduction based on 100,000 jobs, you're looking at about 20,000 jobs lost within the auto industry.

It's clear the auto part suppliers are going to follow assembly, and this deal is a disastrous deal for the Canadian auto players. I just want you to look at it from this vantage point if you wouldn't mind. The Japanese automakers will come here today and say it's a great deal. If the Japanese automakers are saying this is a great deal, it's going to be great for the Japanese companies based in another country. When you have a North American player, a major employer, saying that it's a bad deal, then I would suggest we have to decide whose interests we're looking out for.

With this deal, I can't believe we would do a snap-back in five years or a tariff elimination in five years, especially when we knew that the U.S. and the Japanese governments were bargaining weeks beforehand and had agreed to a 25-year and 30-year threshold. With Malaysia and Vietnam, it will be 13 years before the tariff comes off. Why would we do five years? Why? Either we don't understand the industry, or we didn't care about the impact it would have on Canadian jobs, or we were incompetent. It's one of those things,

because we couldn't have such a low threshold that the tariff was coming off when we knew what everybody else around the world did.

We're talking about a government that has perfected the art of currency manipulation. They already sell 135,000 vehicles a year to Canada. We ship 500 back. With elimination of the tariffs and lowering of the thresholds, our supply jobs and assembly jobs are not only going to be threatened by the TPP players, but they're also going to be penalized by non-TPP imports from China, from Malaysia, and from other countries around the world that aren't even a part of the TPP agreement. This is a huge threat. And it's not just the labour movement that is saying so; the major corporations are also saying that.

Dianne is right. Reid Bigland from Chrysler said that if the TPP had been in place three years ago, they wouldn't have made the \$3.6 billion of investments in their two assembly plants in Canada. As Dianne said, and as they all say to me, why would we invest in a country that doesn't respect the role we play in the economy? Auto is the number one export industry in Canada, more so than oil and energy. It's number one. Japan goes into trade bargaining and they want to solidify and enhance their export base. What's their number one export industry? It's auto. So they go in with a mindset to encourage it, to enhance it. We don't. We go in as if auto really doesn't matter.

The TPP was a rush deal for political purposes. It wasn't done in the best interests of Canadians, and the fact that there isn't an economic paper that shows what the impact is shows that it wasn't necessary.

● (0910)

The Chair: Thank you very much, sir. The time is up.

We're going to move to Ms. Ramsey for the NDP.

Ms. Tracey Ramsey (Essex, NDP): Thank you.

Thank you so much for presenting to us today. It's been very informative.

There are a couple of things I'd like to ask about. The TPP includes a motor vehicle safeguard mechanism that would be available to Canada and Japan. If a surge of Japanese auto imports threatened Canadian auto producers with "serious injury", and I'll put that in quotes because that's the actual term that's used, this mechanism would allow Canada to apply tariffs for up to five years on these imports at a higher rate than what is outlined in Canada's TPP tariff schedule.

According to the TPP, a "serious injury means a significant overall impairment in the position of domestic industry". So if a surge of Japanese auto imports were to occur, what would be your definition of serious injury to the Canadian domestic market?

Ms. Caroline Hughes: Let me answer your question in a bit of a different way.

Ford has made the move to be a truly global company, and our Canadian footprint is part of our overall global footprint. In terms of an export platform, today, as Dianne mentioned, we export 90% of the vehicles we build from Oakville. Fifteen per cent of the vehicles we build in Oakville are exported outside of North America. In 2014 we exported 21,000 vehicles to China, 13,000 vehicles to the Middle East, and 5,000 vehicles to South America. There's a bunch of other countries as well. In fact, we export the Edge to over 100 markets, but those are the big chunks. I say that to demonstrate that the old paradigm of just shipping to the U.S. is gone. We ship around the world.

In terms of harm, I have to bring it back to the fact that the single most significant trade barrier we see is currency manipulation, and that will affect our vehicles that are built in Canada and exported around the world. That's one of the challenges also of the safeguard. From a company perspective, we'll look at the overall deal, and we'll look at whether Canada is truly a country that wants to support a competitive and forward-thinking auto sector. In this deal, without the currency manipulation in place and with a much more accelerated tariff phase-out, we don't see that it meets that definition.

• (0915)

Ms. Tracey Ramsey: I have a second question.

There's a concept out there that there's an assistance package that's going to be offered to auto, similar to what we've heard around supply management.

It's my understanding, and I'd like if you could clarify this, that that's actually a shift of funds that already existed in the auto innovation fund. Could you also explain to the committee whether that was something the automotive industry sought, or whether it was something the government was attempting to smooth the deal with?

Ms. Caroline Hughes: You go ahead.

Ms. Dianne Craig: I'm a little bit familiar with this proposed package to try to soften the blow, especially for the smaller parts makers. But global agreements you presumably live with for a lifetime. We cannot be making concessions on principle, especially for these parts makers.

Jerry made a really important point. I would implore you, as you're talking to all the witnesses, to understand what their self-interests are. I've been asked the question of why, as an industry, we're not united around this issue. It's very simple. When you look at those who are against it and those who are for it, I ask you to ask them what the interests of their companies are, and then what is in their interest for Canada.

Ford Motor Company is a global company. As much as we've certainly been arguing for strong currency disciplines, and obviously the tariff was very different in the U.S., Ford Motor Company is a global company. We source from all over the world, and we ship to all over the world. The TPP is not going to make or break Ford Motor Company. The TPP will hurt or help Canada. That's why we are advocating for what is in the best interest for Canada.

As the TPP is outlined today, this will not be in the best interest for Canada in terms of creating any export opportunities.

Ms. Tracey Ramsey: My last question is about the tariff phase-outs.

We know there's a huge difference between what the U.S. has in this agreement and what we have. You've touched a little bit on how this phase-out would affect auto. You've talked about the 20,000 jobs that would be lost under the content changes.

Could you let us know what the conversations were during your consultations around this difference in the tariff phase-out with the U.S.? Was there ever an opportunity for us to have the same deal that they did? Under the current Liberal government, what have those conversations or consultations been?

Ms. Caroline Hughes: In terms of the tariff fees we were clear from the beginning [*Technical difficulty—Editor*].

I'm not sure why we didn't get there, but I know that our advice was very clear in terms of having, because of the North American integration of the market, to land in the same place on the auto tariff phase-outs.

Ms. Dianne Craig: To add to that, the U.S. knew, because Japan has been a historically closed market, that it would take maybe years to open up the market. Maybe the Canadian negotiators, with all due respect, were a little bit naive to think it would actually open up in six years. When this tariff phase-out goes out in five years, the 6% tariff, you can call it \$2,000 on average for a vehicle. If you add that to what the Canadian revenue loss will be, it will be about \$200 million that the Canadian government is going to basically gift back to the Japanese automakers, because they're no longer going to be spending that tariff. I promise you it won't come in terms of consumer-reduced prices. They're going to take that \$200 million to \$250 million and they're going to invest it in their home country in autos. And that is a big problem for us.

The Chair: Thank you, Ms. Craig.

We'll move on to—

Ms. Elizabeth May (Saanich—Gulf Islands, GP): Mr. Chair, would it be possible for me to get back in at the end of this round?

The Chair: I think what we do is.... We have recognized parties here. If you want to ask a question, we will discuss it in camera among ourselves. If you ever want to ask a question, because you're not a recognized party, I'm not saying we can't do it, but we'll discuss it among ourselves in camera. If you had put this request in before, we would have looked at it, but right now we have a list.

• (0920)

Ms. Elizabeth May: With all due respect, Mr. Chair, that's a brand new rule. When I appear before other committees, I ask, and it's at the discretion of the chair, and then they can decide to let me ask the question. I don't want to take a lot of your time, but what you've just proposed isn't normal practice.

The Chair: We're going to wait for this round to finish and I'll check with the committee. Right now we're in the midst of questioning.

Mr. Dhaliwal.

Mr. Sukh Dhaliwal (Surrey—Newton, Lib.): Thank you, Mr. Chair, and welcome to the witnesses.

Ms. Craig and Mr. Dias, you mentioned meaningful consultations, and Madam Ramsey asked about the consultations you have had with the Liberals.

Actually, this is a chance to have real consultations, because this is an open process, and we have a parliamentary secretary sitting here taking this voice to the minister and to the government. This is not just a study, but real consultation is happening.

Mr. Dias, you mentioned that the TPP will have an impact on the export of logs. I come from British Columbia, where there are almost 27,000 members of Unifor. You represent them, so thank you. How would it affect the B.C. lumber situation? Everyone I talk to who is concerned about B.C. lumber says, “We are supportive of the TPP, but this is the first time I'm hearing...”.

Mr. Jerry Dias: There are several problems with it. There's a side letter which says that Japan can immediately request and be granted the export over all logs. The impact that's going to have on B.C., New Brunswick, Ontario, and Quebec will be whether or not we have enough supply within Canada to run our own mills, if in fact they have the right to unilaterally request raw log exports. That's going to have an impact on saw mills and on the system in a lot of remote communities across the country.

Mr. Angelo DiCaro (National Representative, Unifor): To the point that was made, one thing in addition to what Jerry was saying is the lack of clarity about what was negotiated. Our intelligence on this suggests there's still some discrepancy about the understanding of the terms in that deal and what this will mean about protecting that raw log export regulation in B.C. We raise it as something that our members are flagging. We want clarity on that, but it's another example of how there's still a lot of questions to be answered around that.

Mr. Jerry Dias: We have a \$122-billion deficit. Do you know why? It's because we have no vision. We're a country that has lost our way as it relates to manufacturing anything. A country so rich in natural resources and raw materials, and we don't do a damn thing with them. We cut down our trees and we ship them overseas. We pull a mineral from the ground and we ship it. We're so rich. We could have such an incredible economy if we utilized our strengths as the foundation for a strong economy. We don't do that.

Even in the manufacturing sector and even when we do things well—we were number four in the world in auto assembly, and today we're about number twelve. It's the same with aerospace. We used to be four, and today we're about ten or eleven. Even the manufacturing things we did well drop if you don't have any sort of an industrial strategy. We have no industrial strategy for manufacturing, and we have absolutely no industrial strategy to do what we're going to do with our natural resources and raw materials.

Mr. Sukh Dhaliwal: Thank you.

Ms. Craig said we should at least match the phase-out period with the U.S. Would you agree, Mr. Dias?

Mr. Jerry Dias: Of course. Twenty-five or thirty years gives you an opportunity to prepare. It also gives us the opportunity to make the arguments about trade. Trade means that I give you something

and you give me something. These aren't trade deals in that conventional sense. This is about investor rights. This is about the free flow of capital. This is about the corporate community making whatever decisions they want.

Do we agree with a 25 to 30 year phase-out? The answer is yes, but more importantly, what should be in place is that in fact this isn't going to be fair trade. There has to be a snap-back provision that puts the 6.1% tariff back on. This can't be a situation where we go for 134,000 vehicles a year come into Canada and 500 go out to Japan, and that becomes 200,000 vehicles dropped into Canada and then 750 go to Japan. That's not what I call trade.

• (0925)

Mr. Angelo DiCaro: Just to supplement that, we followed closely the response of the U.S. special committee on autos that was part of the USTR, and we dug out a memo they had produced after the deal was struck. The auto trade committee called this long-term 25-year to 30-year phase-out a welcome result. They acknowledged that it was unusually long, but it was appropriate given the history Japan has with its unwillingness to open up its market. They claimed that's in some sense of victory and again on our end it's far from that.

Then on the snap-back provision one piece of what was negotiated, which is a bit troubling for us, is how time limited it is. We simply have six years to do this and if we miss that window, as Ms. Craig said, we have these things for a lifetime and not six years. So this becomes a troubling fact.

Ms. Caroline Hughes: May I add that in terms of the tariff phase-out, the U.S. auto tariff phase-out is back-end loaded. That means on the car side the 2.5% tariff on cars does not change for the first 14 years. It remains in place at 2.5%. Then in year 15 it begins to gradually decline to 0% by year 25. On the truck side, the truck tariff remains in place until year 29. So for the first 29 years of the agreement, there is absolutely no change in the truck tariff for vehicles that are imported into the U.S. from Japan or any of the TPP countries.

Mr. Sukh Dhaliwal: In a *Maclean's* article, Trevor Tombe says that access to cheaper parts will ultimately lower the price of the car and this is beneficial for both consumers and producers. With lower production costs, cars will become more affordable for consumers and equally the auto sector will have increased export opportunities.

Would you agree with that statement, or do you have any concerns, Ms. Craig?

Ms. Dianne Craig: I would not agree with that statement.

I think it's going to reduce the cost for the producers. It is not a given that it's going to be passed on to the consumers. We can just look to last year with the South Korean free trade agreement and what's happened with Hyundai and Kia products that have come into Canada. Their prices have not gone down. They have gone up.

You price to the market and if you have an opportunity to reduce your costs, you're going to do so.

Mr. Sukh Dhaliwal: Mr. Dias, did you have something to add?

The Chair: Your time is up for this round.

We still have roughly 10 minutes left for the second round of questioning with the witnesses we have.

There was a question from Ms. May, but the clerk has informed me there has to be unanimous consent for the member to be able to do that.

She's just asked for a couple of minutes. Do we have agreement? Okay, Ms. May, you have two minutes—sorry, we don't have unanimous consent?

Ms. Elizabeth May: Mr. Chair, I appreciate your efforts and I'm sorry the Conservatives will not let me speak at this committee.

Thank you.

The Chair: Okay, we're going to move on to Mr. Peterson. These rounds have six minutes and we're probably only going to have two questions.

Mr. Randy Hoback (Prince Albert, CPC): Mr. Chair, I have a point of order.

On this whole handling of Ms. May, as I've said to you before, I have no problem with her coming and asking at the end of the session once everybody else has had a chance to discuss and have their rounds, because these rounds have been set up and it's been very tightly scripted on who gets what.

I'd be willing to share some of my time with her in the last round if she wants to wait until the next round of witnesses and speak then, but for her to try to insert herself at this point and without any warning to the chair that she was coming today is not appropriate. It makes it really awkward. We have our questions that we want to get on the floor and if we insert her now and then I don't get a chance, nor do the Liberals, nor do the NDP, that's not fair to the rest of the committee who are working on this file day in and day out.

The Chair: Your point is taken, Mr. Hoback.

Maybe when we start the second round if we want to bring it up again then, we will.

We're going to finish this round and go from there.

We're talking about the next set of witnesses.

Sorry for that, Mr. Peterson, because we'll probably only have two questions left. You have six minutes.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): I'm going to split it with Ms. Lapointe, if that's okay. I just wanted to make sure we get that, so I'll take three minutes and let me know when that's up.

First of all, to the witnesses, thank you for the presentations. They were very informative, and we appreciate your taking time to come here and for putting the work into these presentations.

Mr. Dias, you mentioned in your comments about structural issues in the Japanese economy that present more barriers to trade than the tariffs do. Can you elaborate on what those are?

• (0930)

Mr. Jerry Dias: Of course.

Japan manipulates their currency better than anybody. That's why their export industry, especially in auto, is so successful. On top of that they have a culture whereby if you buy an imported vehicle, there are frequently taxation issues, and there's a whole culture of making sure they buy Japanese vehicles within Japan. So it's structural as it relates to their trade policies, how they deal with trade, but all the decisions they make are geared to a successful export industry.

To the credit of the Japanese citizens, they understand the importance of buying Japanese.

Mr. Kyle Peterson: Ms. Craig, on the currency manipulation, you alluded to the IMF and WTO provisions about how to deal with those scenarios, but you're saying they are not effective.

Could you elaborate on why they are ineffective? Is there a way to address these issues when it comes to the TPP?

Ms. Dianne Craig: To add to what Jerry said, Japan has a very strong automotive manufacturing industrial strategy. The Japanese companies produce in Japan nine million vehicles. They only sell four million. Because their entire industrial base is so strongly geared to manufacturing, the production has to go somewhere. This is the reason they are so keen on trade agreements and the opportunities to export more to Canada.

On the IMF and the WTO, they just haven't been effective. The principles have been there, but for whatever reason they have not been enforced, even when we know we have had currency manipulators.

Caroline, do you want to speak a little more about our thoughts on making the IMF more enforceable?

Ms. Caroline Hughes: Certainly. As I mentioned, the IMF has a strict definition of currency manipulation. In fact, there was a proposal put forward as part of the TPP negotiations in the U.S. It was developed by external experts in monetary policy and external economists. It suggested how you could take those IMF principles and in a simple three-part test put them into a trade agreement. If a country failed to meet the three-part test, there would be a remedy. We would suggest the remedy should be that the tariff goes back on the imported goods until such time as the currency manipulation ends.

That three-part test is as follows: Did the TPP member have a current account surplus over a period of time? Did it add to its foreign exchange reserves over that same period of time? Are the foreign exchange reserves more than sufficient?

All three of these are what the IMF uses when they evaluate currency manipulation. In fact, I'd be happy to have this proposal translated and submit it to the committee if you're interested in having it.

Mr. Kyle Peterson: I'm going to defer to Madame Lapointe, who has a few questions.

[*Translation*]

Ms. Linda Lapointe (Rivière-des-Mille-Îles, Lib.): Thank you, Mr. Chair.

I thank the witnesses very much for being here with us today.

I would like you to answer briefly because I have a lot of questions for you.

Ms. Craig, you said that the current agreement needs to be amended. In your opinion, what should be changed in this agreement? Earlier you said that other manufacturing sectors and other businesses could be impacted in a negative way. What businesses did you have in mind when you said that the agreement could have negative effects?

[*English*]

Ms. Dianne Craig: I apologize. I missed the beginning of the question.

[*Translation*]

Ms. Linda Lapointe: I asked you what should be changed in the current agreement. In your opinion, what is not the way it should be in the current agreement?

[*English*]

Ms. Dianne Craig: There are two things, and if we change just these two areas, Ford would be supportive of the TPP. First, we need to have the tariff phase-out match that of the U.S., so 25 years on cars and 30 years on trucks. Second, would be to add currency disciplines. As Caroline just outlined, with the IMF principles in place, we could understand what the provision would be regarding the snap-back, when it would happen.

Those are the only two things. We want to support the TPP.

[*Translation*]

Ms. Linda Lapointe: You also mentioned that other business sectors may be negatively impacted. Which ones did you have in mind when you said that?

• (0935)

[*English*]

Ms. Dianne Craig: The small automakers in the auto industry will be harmed by this agreement. There are lots of global automakers in Canada that have supported the TPP because of, as I mentioned earlier, self-interest for the organizations, the companies, versus what is in the interests of Canada in the longer term.

That's why the smaller manufacturers of auto parts will be harmed.

[*Translation*]

Ms. Linda Lapointe: Thank you.

Mr. Dias, you said that you are a unionist and that you represent the automotive industry. You also referred to telecommunications, health care, the media and agri-food.

What impact would the agreement have on these industries? Do you think it would be the same as for the automotive sector?

[*English*]

The Chair: Please keep it short, Mr. Dias, because the time is up.

Mr. Angelo DiCaro: Yes, I'll try to keep it short.

Mr. Jerry Dias: Because I can't.

Voices: Oh, oh!

Mr. Angelo DiCaro: The focus on this was mostly explaining the impacts on autos, and a lot of the questions we raised in the presentation were about uncertainties that we still are hearing as different analyses are being conducted on various chapters of the deal.

For instance, on the media chapter, one of the big questions that we've been raising in that industry was whether or not online streaming services will ever be regulated by the CRTC. Currently, they are exempted. There's a provision in this agreement that some analysts have pointed to that say we're actually going to forgo that right in the TPP under the cultural chapter. That is very concerning, because that will ultimately lead down the line to many jobs lost in the media.

What we're doing is raising additional questions, just pointing out that auto, obviously, is a big loser in this particular agreement, but there are others that we're trying to keep our finger on the pulse of.

The Chair: Go ahead.

Mr. Jerry Dias: If you don't mind—I know we're out of time—I just want to leave everyone with a question.

What do we get out of this? Of all of our trade, 97% that is going to be covered by the TPP is already covered by other trade agreements.

Number one, what do we get? Did we get the Japanese to take the tariffs off Canadian imported vehicles? Of course not, because there is no tariff. So what did we get? Zero. They ended up getting their 6.1% taken off in five years where every other country did a better deal. Our thresholds dropped from 62.5% and 60% down to 45% and 35% and 40%. That's what they got. What did we get? Squat.

The Chair: Thank you, Mr. Dias.

Ms. Elizabeth May: That's a question answered that I didn't get to ask.

The Chair: That ends our first half of this morning's meeting.

Thank you very much, Unifor. Thank you very much, Ford.

It was a very informative and lively discussion here this morning.

We're going to get everybody set up for the next group of witnesses.

- _____ (Pause) _____
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- (0940)

The Chair: To those who have just entered the room, welcome.

We are on the second half of today's meeting on our TPP study. We've been doing different clusters in industry, and today we're doing auto.

For the second half we have with us Japan Automobile Manufacturers Association of Canada and the Automotive Parts Manufacturers' Association. We're going to continue down the list the way we've done in the questioning.

It's been brought to my attention that Ms. May has a question and she wants to have some time. I've just been notified by the Liberals that they're willing to give her a couple of minutes, half of their time on their first question.

Who wants to go first, the Japan Automobile Manufacturers or the Automotive Parts Manufacturers' Association?

Mr. David Worts (Executive Director, Japan Automobile Manufacturers Association of Canada): Thank you very much, Mr. Chairman.

My name is David Worts. I'm the executive director of the Japan Automobile Manufacturers Association of Canada. With me is Stephen Beatty, vice-president of Toyota Canada.

Thank you for the opportunity to address the committee as it begins its study of the TPP.

To begin, let me outline who we are and what our members are doing in Canada, as this forms the basis of why we support trade liberalization such as the TPP to balance other agreements like the Canada-Korea FTA and the CETA.

As a small market with a large export-focused manufacturing sector and a postwar history, the auto industry in Canada is rooted in trade liberalization. Over the past 50 years, we've become an integral part of that industry. Since 1965, when Japanese cars first entered the Canadian market, our members have sold 15.1 million units. Since 1986, when the first vehicle assembly plant opened in Canada, Japanese manufacturers have built over 16.4 million vehicles. We are not only building where we sell, we are building more than we sell in Canada.

Last year was the second consecutive year of record production, exports, and sales for our members. Canada has been a net exporter of Japanese-brand vehicles every year since 1993, a cumulative total of almost four million vehicles. In 2015 we exported over five times as many vehicles as we imported from Japan. Nearly eight of every ten vehicles we sell in Canada are currently built in North America. Moreover, models built in Canada are among the most popular with Canadian consumers. Building locally brings us closer to our consumers.

New investments in the past year, such as the global lead designation for the new Civic in Alliston and a new generation Lexus RX launching in Cambridge, combined with the announced future growth of RAV4 into the Cambridge plant, underscore our

long-term commitment to Canada, which will benefit Canadian parts makers as well.

To date, Canadian automakers' cumulative investment in Canadian manufacturing facilities is in excess of \$10 billion and has resulted in attracting to Canada over 50 operations related to auto parts. The growth of our part of the industry now accounts for 43% of total light vehicle production in Canada. Direct and indirect employment stands at over 72,000 across Canada, including about 30,000 in vehicle and Japanese-related auto parts plants in Ontario, Quebec, and B.C.

As we believe in free trade, we are supporting the TPP, but not just for the five-year phase-out and the forward-looking flexible rules of origin. For the highly trade-dependent auto industry, the TPP will restore a level playing field aligned with new trade agreements, such as the Canada-Korea FTA and the CETA.

In fact, we were disappointed that the TPP tariff phase-out period was not immediate on implementation, as this would have kept us competitive with vehicles imported from South Korea, which will be duty-free on January 1, 2017. On the other hand, the five-year phase-out gives Canada preferential access to the U.S. market for 20 years over Japan, which offers the opportunity to boost production and exports from Canadian plants.

While the 25-year and 30-year U.S. tariff phase-outs, which apply only to Japan, are unnecessarily protectionist, the impact is not particularly significant. The tariff rate on cars is a nuisance level of 2.5%, and the 25% tariff on commercial trucks is not really an issue, as Toyota, Nissan, and Honda all make pickups in the U.S. Canadian and U.S. auto tariffs are not aligned, as there is no common external tariff, so there's no reason for phase-outs to be aligned. Passenger vehicle tariffs, at 6.1%, are two and a half times higher in Canada than in the U.S.

If the same phase-outs had been applied in Canada, not only would Japanese imports be at a competitive disadvantage for 25 or 30 years, it would create a serious disincentive for further investment in Canada. As such, we support the early ratification of the TPP as a positive signal to automotive-related investors in Japan that Canada recognizes the significant and growing presence of Japanese automakers and parts makers and, above all, that we conduct business on a level playing field.

Expanding international relations through comprehensive trade agreements such as the TPP will increase business opportunities and send a strong message to Canadian consumers of more choice in their car-buying experience. From our perspective, the TPP represents a critical balance as Canada forges new agreements with Korea and Europe, with a long-term positive outlook that will benefit consumers as well as many sectors of the Canadian economy, including auto and auto parts manufacturing.

● (0945)

Finally, to echo what others have said, if the TPP goes ahead, it would be the height of economic folly for Canada not to be in the TPP. In the unlikely event that the TPP fails in the U.S., then Canada should immediately resume bilateral EPA negotiations with Japan.

Thank you very much.

The Chair: Thank you very much, Mr. Worts. You were right on time.

We'll move over to Mr. Volpe from the Automotive Parts Manufacturers' Association.

Mr. Flavio Volpe (President, Automotive Parts Manufacturers' Association): Good morning, Mr. Chair and honourable members. I'm pleased to join you today.

I would like to thank you for this opportunity to share with you our views and perspectives about the impact of the Trans-Pacific Partnership on Canadian automotive parts manufacturers and to discuss the best course of action for the Government of Canada in the final ratification phase of this process.

To start, let me introduce the Automotive Parts Manufacturers' Association. The APMA is Canada's national association representing OEM producers of parts, equipment, tools, supplies, and services for the worldwide automotive industry. The association was founded in 1952. Its members account for 90% of independent parts production in Canada. In 2015, automotive part shipments were over \$25 billion, and the industry employment level was at over 81,000 people. Approximately half of those people are employed by small and medium-sized parts producers in Canada, and the other half by the larger firms. These firms can be characterized as Canadian-owned private and public, or foreign-owned private and public. It's a very good mix.

The TPP is an agreement that originated with four small countries looking to formalize trade relations in the South Pacific. It was subsequently overtaken by the U.S.A. and Japan looking to wrap a bilateral agreement in the flags of several other countries, and was finally populated by countries that asked—by some reports, begged—to be included so as not to have been left behind by the marriage of these two giants. Canada's membership card was punched in this last group. With a new, inauspicious entry into mature negotiations between two major players, focused on their geopolitical interests and their own relationships with a non-party, China, Canada did not participate in this negotiation with a strong hand.

Other witnesses called before this committee have described consultations with officials and ministers in the lead-up months and years to this year's agreement completion, but the automotive parts manufacturers were not among that group. Canada, and reportedly Mexico, handed over its negotiating obligations in automotive rules of origin, safeguard measures, and snap-backs to the U.S. in bilateral discussions with Japan.

According to Mexican sources, the U.S. and Japan concluded a bilateral agreement in April 2015 that included a reduction of automotive regional value content in auto parts to 30% and in finished vehicles to 45%, with flexibility provisions allowing for a further reduction of 10% in the vehicle content number. The NAFTA

standard, upon which the most integrated and lucrative commercial supply chain in the world had been based, was 62.5% and 60% respectively, and the NAFTA partner negotiating position was 55%.

That the U.S. did not inform Canada and Mexico until the Maui round in late July 2015 of its agreement with Japan is a matter of public record. I will not add to it here.

In the interim, the APMA met with senior officials, the minister of international trade, and the prime minister in the period between the April U.S.-Japan agreement and the July negotiating round. None in that group either knew of the April agreement or, if they did, cared to consult with the industry to understand its impact. I believe firmly that it was the former and not the latter.

Therein lies the problem with the TPP for Canada's auto parts manufacturing sector. No one in a position of authority invested in industry consultation before being dealt a terrible hand by major trading partners that did not have Canadian interests at heart when they negotiated the terms in our absence.

The APMA was very firmly and publicly involved in the period between the July Maui meeting and the finalization of the agreement in October. We coordinated policy positions between our Mexican and U.S. counterparts, and wrote public letters warning of the adverse effects of the proposed terms to our respective chief negotiators. We organized wide and deep industry consultations, attended and hosted meetings and calls on specific terms' impacts, and played a strong role in trilateral and quadrilateral auto term negotiations with our NAFTA partners, and subsequently with Japan.

The final terms undermine the continental dynamics of the most integrated automotive supply network in the world. The rules by which Canadian, U.S., and Mexican firms have successfully operated for over 20 years have been severed. Not only do the new TPP rules-of-origin terms allow for parts and vehicles whose vast majority is sourced from non-TPP countries to be sold tariff-free in North America, but dispute resolution, tariff elimination, and safeguard measures are also subject to Japan-U.S., Canada-U.S., and Canada-Japan side agreements that are bilateral and different.

● (0950)

A U.S.-Japan trade dispute that triggers a safeguard measure, such as a snap-back, could have an adverse effect upon Canada's automotive industry, and we lack the provisions to deal with it or an understanding of the causal dynamics.

Furthermore, and very importantly, the U.S. administration is preparing a trade adjustment assistance bill to deal with the effects of the TPP on the U.S. industry. If history is any guide, it will contain worker training provisions, beneficial tax credits, and very likely direct assistance to U.S.-based automotive assembly. A Canadian auto parts industry that is dealing with regional value content provisions that in some cases are almost halved, and with the Japan-Canada tariff elimination schedule that is five years versus the Japan-U.S. schedule of 25 years, faces the real prospect of being doubly burdened by a U.S. industry that will receive federal adjustment assistance. This will further adversely affect our transition into a post-NAFTA world.

This government has inherited a TPP that failed the auto supply sector, specifically the prospects of its small and medium-sized members and the Canadian-based production growth capacity of its larger members. It must approach ratification with caution. The U.S. may not ratify, although that is unlikely. If it is to ratify, it will certainly do so with compensatory legislation wrapping the agreement for our counterpart companies based in that country.

Official negotiation has already failed this industry in this process. The ratification process must be carefully conducted to address shortcomings, foreseen or otherwise.

Thank you.

• (0955)

The Chair: Thank you very much, Mr. Volpe. That's a lot of information in a short time, and we appreciate it.

We're going to continue with our list, in the order in which we're supposed to ask questions.

The Conservatives are up first for six minutes.

Mr. Hoback.

Mr. Randy Hoback: Thank you, Mr. Chair, and thank you, witnesses, for being here.

Mr. Chair, I wish there had been more time with the last group, so as to have a chance to speak too, but these are great witnesses to talk to also.

When I look at this deal, it has to be good for Canadian jobs and Canadian manufacturers. I get a little confused when I see Japanese auto manufacturers investing \$10 billion in Canada and then I hear from Ford Motor Company that they're only going to invest \$1 billion in Canada.

Can you explain to me why you look at Canada as a great place to invest, and why—I guess you can't speak on behalf of Ford—Ford is saying that they'd rather invest \$10 billion in the U.S. and \$7 billion in Mexico? What are the factors that go into play in deciding where you're going to locate a plant? Is it population? Is it market size? Is it tariffs? Is it market access to other regions of the world? What goes into your decision?

Mr. David Worts: I'm not pretending to speak on behalf of those who actually invest, but I understand that for those investment decisions there's a matrix of issues around the environment in which they're investing. Obviously they're looking for a competitive and welcome environment in which to invest.

I think that like U.S. automakers, Japanese automakers in Canada are heavily integrated within the North American region because of the FTA and NAFTA. We were not allowed into the Auto Pact, but we managed to get a reasonable deal in the FTA and the NAFTA. That's been the source of our success, I think, because of the quality of the associates and team members who work in those operations, and also because they've attracted a lot of Japanese investment into Canada on the auto parts side.

Mr. Randy Hoback: Is it fair to say that Japanese investment is coming into Canada because of other opportunities that could be coming down the road? You touched on CETA's having, for example, a platform based in Canada whereby you can have market access not only back into Asia with TPP, but into Europe moving forward.

Mr. David Worts: That's right. As you may recall, Honda announced, I think about a year ago, its plan to export CR-Vs to Europe when the CETA comes into effect. They see an opportunity in the same way that Ford saw their opportunity as well.

Mr. Randy Hoback: I've heard some issues about the tariff reduction, and you touched on it. When we look at the macro side, it doesn't sound that good, but when I start comparing vehicle lines and products, I'm curious about how many vehicle products made in Canada will actually overlap with the tariff reductions. What are we really putting at play here in Canada in having that fast tariff reduction? Are these vehicles actually made in Canada, or are they made in the U.S., Mexico, or other countries? Are we actually comparing apples to apples here?

Mr. David Worts: As I mentioned, about eight of every ten vehicles we sell in Canada are currently built in North America. About 40% of those are actually built in Canada. Basically, two vehicles of every ten are still imported from Japan, because we only make a limited number of vehicles and models here in Canada to take advantage of scale and scope and of having access to the much larger U.S. market within NAFTA.

We need those imports to fill out the lines so as to address all of the transportation needs of Canadian consumers. Recognizing that we've been a net exporter since 1993, we're building more than we sell and are very positive about the Canadian operations here.

Mr. Randy Hoback: Mr. Volpe, you talked about the auto parts manufacturers here in Canada. One thing about having lower content rules is that they also apply outside of Canada. So shipping parts and exporting parts out of Canada as part of these supply chains would be beneficial to Canadian manufacturers, would they not? In Japan they only need 50% content.

Mr. Flavio Volpe: Auto manufacturing is a very localized endeavour. If you think about auto parts travelling to other markets, they go in volume and they go just in time. They don't cross the Pacific by themselves; they cross the Pacific in a car.

Mr. Randy Hoback: Could you get a scenario where Mexico and the U.S. sign on to the TPP, but Canada does not? Would that do serious damage to your industry with the fact that you would not be competing now on a level playing field with our North American—

Mr. Flavio Volpe: That's an interesting premise that gets put out there by a lot of people who have appeared here before, saying the terms are weak, but everybody else signed on, so we should be on or else it's a problem.

• (1000)

Mr. Randy Hoback: I still ask you my question. If we are not there and they are, what is going to be the impact on the parts manufacturers in Canada if they're not part of those supply—

Mr. Flavio Volpe: We've been very clear. We were very clear with the former government. We're very clear with the current government. If NAFTA partners are in, we need to be in the TPP. That doesn't mean we think the TPP terms are good; it just means that's the lesser of two evils.

Mr. Randy Hoback: When we hear about the number of manufactured vehicles—eight out of ten Japanese vehicles are coming out of North America—how does currency manipulation come into that formula if 80% of them are actually manufactured here in North America?

Mr. Stephen Beatty (Vice-President, Toyota Canada Inc., Japan Automobile Manufacturers Association of Canada): Could I respond to that?

I think if you look back over the last number of years, the single biggest impact we've had in the Canadian auto industry was when the Canadian dollar peaked above the U.S. dollar, and that was at a time when the U.S. government was practising a number of economic tools designed to adjust the value of the U.S. dollar. So we're in a trading relationship. It's very deeply integrated, and small movements back and forth with our key trading partners have a significant impact on our ability to compete both in the domestic marketplace and for the export market that every manufacturer in Canada is responsible for.

I do think it's very important when you're busy looking at this issue, particularly in the context of trying to determine what the impact will be on the Canadian auto industry, to understand that there are really two parts of the Canadian auto industry from the manufacturing standpoint. There's an American-owned industry and there's a Japanese-owned industry. As of the end of last year, Toyota was the largest manufacturer of vehicles in Canada and Ford was the smallest. You heard from Ford earlier today about its manufacturing base and its reliance on exports, and I think that's a very good thing for it. But it points out the fact that the elimination of tariffs into the Canadian marketplace will have little or no impact on the manufacturing base here in Canada.

So I think it's important to level the debate and understand what it is we're talking about overall.

Mr. Randy Hoback: Thank you.

The Chair: Thank you, Mr. Hoback.

We'll move over to Ms. Ludwig. You're splitting your time with Ms. May, so you have three minutes and she has three minutes after you.

Ms. Karen Ludwig (New Brunswick Southwest, Lib.): Thank you, Mr. Chair.

Good morning and thank you, panel. These are excellent discussions.

I'm very pleased to hear that we're all involved in public consultations and also to share time with Madam May. I think the public needs to be aware that we are very collaborative, that we're open, and that we're hearing from a variety of stakeholders both for and against.

In the last set of speakers, one of them mentioned that we are at a \$122-billion trade deficit. So to stay with the status quo puts us into further challenges. We are significantly reliant on the U.S. market. In terms in ratifying the TPP, my colleague mentioned our not ratifying when the other countries do. If the TPP is ratified, how might the Japanese or the Korean automakers invest in Canada? How could we become more innovative and more competitive? How might that affect job creation and foreign investment?

Mr. David Worts: Thank you for that question.

I think the issue for us is that we're trying to catch up to what Canada signed, the deal with Korea, and so, on the import side we're facing competition basically from our Korean competitors. They're going to be able to come in duty-free as of the first of January next year, with a significant competitive advantage. That was really our issue going into this and the reason we were supporting the bilateral negotiation between Canada and Japan. Actually we thought that might be an easier way to go, given that it was a bilateral deal and that Canada's and Japan's economies are quite complementary and our relationship with Japan has been very positive.

I can't speak on behalf of Korean investors as to why they wouldn't think about investing in Canada. In fact they were. They were here. They were invested in Quebec for a few years back in the nineties, but subsequently they pulled the plant and went to Brazil.

• (1005)

Mr. Flavio Volpe: I have a quick thought on the increased investment by the Japanese and Koreans. Koreans deal with the Korean accord. This deal is about movement of product, and so this deal makes it easier for product made in Japan or in other countries outside of North America to flow into Canada. So if you're opening the doors to ease the movement of goods manufactured somewhere else, you're undercutting the value proposition of increased investment in this market. If what you're doing is then redefining the local value content and you're at a point where the vast majority of the regional value content can be sourced outside the TPP, that means China. So if you're going to manufacture in Asia and you're going to source from China, why would you build new plants here?

The Chair: We're going to move to Elizabeth May for the remainder of the time. There are two and a half minutes left.

Ms. Elizabeth May: Thank you very much, Mr. Chair.

My question is for Mr. Volpe.

First I want to thank you, because I think your narrative presentation of how the TPP evolved and how Canada got squeezed in so many places to make this disadvantageous to us explained it better than I've ever heard anyone explain it.

I would also say parenthetically that I don't believe it's so unlikely the U.S. won't ratify the TPP. Hillary Clinton has come out against it. A bunch of Republicans and Congress are against it.

How much damage will this do to the Canadian auto parts manufacturing industry, most members of which are small and medium-sized enterprises, if it goes through as currently drafted? Do you believe there's scope, particularly with the concern in the U.S. politically, for us to renegotiate key pieces to protect your sector?

Mr. Flavio Volpe: I have two separate thoughts. Renegotiation, I think, isn't on the table. I do think there are some side agreements to this deal that I'd like to see someone challenge. Those side agreements do things like deal with snap-backs and safeguards and tariff elimination schedules. You know, the premise for Canadian manufacturers, both small and medium-sized ones.... I represent all of them. You heard from a lot of large ones who said they were happy and they support the deal, but I want to parse what they're saying. They're saying they're getting access to new markets, and that they can find new customers and sell to them. But it's a GNP discussion, not a GDP discussion. If you're going to supply somebody who's assembling in Asia, you're going to assemble your parts in Asia.

The inverse in this deal is true. We are now opening the market for larger players to compete. They have mobile capital and economies of scale, and they can bid on products and bid on lines that the small and medium-sized single footprint companies that are healthy today will have to compete with. You can't argue one without the other. Even though some of the larger billion-dollar Canadian tier one companies are going to possibly benefit from getting new customers, they will benefit from getting those customers somewhere else, hiring people in other countries, and sourcing goods in those countries to make those parts to build those cars. That's where we are on this.

The Chair: Thank you very much, Mr. Volpe.

Time is up and we're going to go to the Conservatives now.

Mr. Ritz, you have five minutes.

Hon. Gerry Ritz (Battlefords—Lloydminster, CPC): Thank you. It's a very interesting discussion today, folks.

I want to talk about trade discussions, which are always about balance. There are always people who think they won more, and other people who think they lost more.

Mr. Dias made the point that the auto sector is the largest manufacturing sector in the country. That's not true; it's actually food processing.

You also made a point on currency manipulation, and I couldn't agree with you more. There are side agreements under global discussions that take care of currency manipulation, should it rear its ugly head.

There is also a lot of talk about job loss, but there has never been much talk about job creation, so I'd like to hear your side of that. I know that on the last panel they talked about 20,000 jobs being lost immediately, but that's a worst-case scenario, and I don't see it happening. There are also the job creators. In the last 40 years,

you've created 72,000 direct jobs. Do you see the opportunity to create more jobs as we increase our automotive footprint?

We're not dealing with domestic consumption of 30 million people, or even with the U.S. at 300 million people. We're dealing with 900 million people all over the world, and we can start to talk about global exports. Do you have a number that says which kinds of jobs could be created?

• (1010)

Mr. David Worts: Actually, we're coming at it from a slightly different perspective. We're trying to catch up with what Canada has negotiated with Korea and with CETA. Those are our main competitors.

Given the amount of investment the Japanese automakers and the auto parts makers have put into Canada, it would be perverse if European vehicles and Korean vehicles were coming into Canada duty-free and Japanese vehicles weren't.

Our story is that trade liberalization has been at the root of all we do and have done in Canada. We are continuing to make commitments to Canada, not just at Honda and Toyota, but also at the Hino medium-duty truck operation in Woodstock, and at Toyota's wheel plant in British Columbia. It is there for the record. We're not in the business of forecasting where this might go, but we're saying that we need to create a competitive, flexible environment.

We can look at things like the CETA and the TPP for new business opportunities. It's not going to be immediate, necessarily, because these are long in gestation and so the benefits are going to come over time. But I think we have to make sure that you maintain a positive environment here in Canada.

Hon. Gerry Ritz: Pre-CETA, pre-TPP, and pre-South Korea, we saw a huge erosion of the whole auto sector, sliding into some tax-free states in the U.S., sliding into Mexico, and into China in the case of Magna building plants there. I see trade liberalization as a way to divert a lot of that and maintain our auto sector here in Canada. When I look at the removal of our tariff barriers over that five-year period, as opposed to the U.S. maintaining them for 25 and 30 years, depending on the equipment, where they already build a lot in the U.S. anyway, I see that as an opportunity. We would now have a level playing field to draw investment into Canada for an extra 20 to 25 years. This should help to stop that erosion.

Are there any comments on that?

Mr. Stephen Beatty: There are two things we would tell you, and it goes back in our history, and that is, manufacturing follows sales. The greater the opportunity for us to reach a market, the greater the opportunity there is for us to build manufacturing. This has been our history.

The other aspect of this is that keeping the NAFTA rules in place has often been touted as what will save the Canadian industry. Clearly, that same period of time has demonstrated there has been a drift of Canadian manufacturing toward Mexico. The NAFTA region was set up in such a way that if you wanted to have the lowest cost of production, you were going to move south. That is not the most compelling argument for manufacturing.

What you want is a manufacturing operation that provides the highest quality, the greatest responsiveness to the marketplace, and is able to manufacture high value-added, technologically advanced products. That is what we've brought into our Canadian facilities.

With that in mind, I'm confident that with a lot of hard work, we've built a competitive manufacturing base here in Canada. But over the long haul, it's very difficult for us to think that staying behind tariff barriers, and in particular impeding Japanese manufacturers' ability to respond effectively to the marketplace is going to create net benefits for the sector in Canada.

The Chair: Thank you very much, Mr. Beatty.

We're going to the NDP now for three minutes.

Ms. Ramsey—

Mr. Flavio Volpe: Mr. Chair, may I just say something in response?

I think we're focusing on tariffs, and tariffs are important for movement of goods. The opposition to the TPP terms has never been on tariffs. You can expand markets, you can drop tariffs and allow people to sell, and the devil is in the detail, the regional value content.

If you kept the regional value content at a level that underpinned the proposition of buying locally, that would be a little different from saying that on some auto parts, we're at 35% local value content. Just to be clear, that's 65% of that part. It doesn't have to come from a TPP country.

If you make the premise that you can buy more parts from outside TPP countries in lower cost jurisdictions that currently underpin production in Asia, it does not then somehow create a value proposition for new investment in Canada. It does the opposite.

•(1015)

The Chair: Thank you, Mr. Volpe.

We're going to start the clock. He didn't take up your time. You have three minutes. Go ahead.

Ms. Tracey Ramsey: My question for you is around the RVC, regional value content.

Jerry Dias said that if they see a 20% reduction in the content, which is included in the TPP, it would ultimately result in 20,000 Canadian auto jobs lost. There are 81,000 parts jobs in Canada. Can you tell us the impact on the jobs that you can see coming forward from the regional content being reduced?

Mr. Flavio Volpe: I think that Unifor has done some study. What we've been saying from day one is that until we've boiled these terms, it's very difficult to say a specific number, but I'll partition it this way.

About 40,000 of the auto parts manufacturers' employment is in small to medium-sized companies. Those companies are single footprint firms, or they are tool and mould makers, or they may be double footprint, usually Canadian-based firms. Those firms are going to see new competition on the lines that they supply from outside North America and outside TPP countries. They have new competition.

The other 40,000-plus are employed in companies like Magna, Linamar, and Martinrea. These are companies that have large global footprints and mobile capital. I think we've all heard from some of their CEOs saying that they'll be fine.

I think the focus is on those small and medium-sized companies.

If you're supplying a line right now under our current NAFTA rules, and the OEM is looking at a NAFTA sheet—and, of course, it doesn't work that way, where you're sitting with a sheet with a checklist—you do have to be compliant. You look at that compliance, and it says now you're going to have to be somewhere in the 60% compliance range. It opens up other options. This is just common sense. It's good business practice to look at other options.

We can look at other options not just from Japan, which is a wonderful manufacturing partner. Frankly, the Japanese investment in Canada, specifically in Ontario, is the difference between Ontario's success and Michigan's success. We're very respectful of that, and we represent them. If you're purchasing in those companies, you now get to look at other TPP countries, and you get to look ostensibly at China and other lower cost countries which, by the way, make great stuff.

Ms. Tracey Ramsey: Is it fair to say then that the SMEs would experience job loss?

Mr. Flavio Volpe: Without question.

Ms. Tracey Ramsey: You also mentioned about consultation, that you weren't consulted at all. Can you speak to the current federal government and whether you've had any ability with the current trade minister or with the current government, in between the window of time from the election until the signing on the 4th, to let them know your position?

You talk about how much you were really digging into the TPP and the impacts across the different NAFTA partners. I'd like to know more about the consultation process with our current government.

The Chair: Sorry, you'll have to be quick. This is the last question.

Mr. Ritz asked the question when he was done and it was answered, but that's fine. Go ahead.

Mr. Flavio Volpe: I'll give credit where it's due with the new government. I think that right after the new minister was sworn in, her office called us and she came to see us. I think we were the first meeting. If I could characterize the meeting, it was technical, and it was three hours long instead of the allocated one hour. To her credit, the minister for whatever we're calling Industry Canada today came. We had deputies, chief negotiators, office staff; we had the whole crew there, and we've been in constant contact since.

The deal is baked, but what we're focusing on is what the process looks like in the United States, and why Canada should take its foot off the gas pedal and wait and see how the Americans deal with it. And they've been listening.

The Chair: Thank you very much.

Mr. David Lametti (LaSalle—Émard—Verdun, Lib.): May I just say it was the Minister of International Trade who met with Mr. Volpe.

The Chair: We have a lot of people talking here.

Mr. Worts, if you want to make a few comments on this, go ahead.

Mr. David Worts: I'd like to say a couple of things.

• (1020)

The Chair: Because you're using up somebody else's time.

Go ahead, sir.

Mr. David Worts: I would say, first of all, auto parts tariffs currently in Canada are zero and have been since 1998, so that right now, parts can come in from anywhere duty-free without any kind of rule of origin. That has been the case, because the duty remission programs that were in the NAFTA were eliminated and that was the response Canada gave at that time in order to effectively support the manufacturing operations here in Canada.

The second thing I would say is NAFTA doesn't guarantee any country-specific sourcing. A part could have zero Canadian content and still be NAFTA compliant.

The competitive pressure on parts makers hasn't really changed with respect to the TPP, but that said, because of the way just-in-time assembly works in most vehicle companies these days, which is that you look first at the local supply community, maintaining a footprint in Canada is good for and critical to maintaining the Canadian auto parts sector.

The Chair: Those are good comments and thanks for bringing that up, Mr. Worts.

We have about four minutes left. My understanding is the Conservatives want to split that, so you're going to split it with.... We have two minutes for the Conservatives, and then we have two minutes for the Liberals, and then we'll wrap it up.

Mr. Van Kesteren.

Mr. Dave Van Kesteren: I thought I had four minutes. I'm going to try to do it as quickly as possible. I want to ask a direct question.

The former government focused on an auto policy that surrounded the corporate tax rate, centres of excellence, capital cost allowance, harmonization, the bridge, the freezing of the EI rates. Is that something that helped Toyota build a footprint here in Canada and make policy decisions that led to expansion?

Mr. Stephen Beatty: I think those were very helpful. I would also say that there was through that whole period a lot of conversations about the need for better bilateral relations with Japan, and action was initiated during that period.

Mr. Dave Van Kesteren: You talked about how built into this agreement are standards on labour and environment policies. Would a carbon tax have an effect on competition with the U.S. and Japan if Canada were to adopt a carbon tax, which would not then be a level playing field with those other two countries?

Mr. Stephen Beatty: Again, anything that affects costs of production ultimately affects the competitive position of manufacturing operations back and forth.

It comes down to what sorts of issues are being taken in the other trading jurisdictions with which we have a primary relationship. If Canada moves by itself, then it's bound to have an impact on manufacturing competitiveness.

Mr. Dave Van Kesteren: Thank you.

The Chair: Madame Lapointe, for two minutes.

[*Translation*]

Ms. Linda Lapointe: Thank you, Mr. Chair. I thank the witnesses for being with us today.

Mr. Worts, I would like to know if your employees are unionized, and if they are, with which union. I am talking about the Japanese companies you represent.

[*English*]

Mr. David Worts: Honda and Toyota are not unionized and neither is Hino. There was a joint venture between General Motors and Suzuki that was called Cami, which is now a 100% General Motors factory, but they were unionized at the time.

[*Translation*]

Ms. Linda Lapointe: Thank you.

[*English*]

Mr. Peter Fonseca: With the success we heard that Ontario has had with the Japanese plants that located here, in your opinion and with your understanding of the TPP, what would the chances be of us landing another assembly plant like that here in Ontario or in Canada?

Would we be at a competitive advantage or disadvantage at the global table now?

Mr. Stephen Beatty: Let me go back in time. I think a lot of water is under the bridge since the original free trade agreement was signed, but I would say to you that high content rules of origin in the original Canada-U.S. agreement actually worked against Canada in attracting new automotive investment.

The higher your starting rules of origin are, the less flexibility a new plant will have and if you don't have a group of dedicated suppliers in place to provide things like powertrain, then you're not going to be able to meet the requirements.

If you are a new investor, under those circumstances, you'd likely go first to the U.S. and not to Canada.

• (1025)

Mr. Flavio Volpe: The devil is in the details. This is not in a tariff. We talked about whether auto parts had a tariff coming in and out. Cars get made in a place. There are concentric circles. You source from those concentric circles because you need hundreds of thousands of parts at a specific time. The idea that the auto parts coming into Canada didn't have a tariff was irrelevant in this discussion.

What's relevant in your question and in this discussion is regional value content. Maybe 62.5% is a barrier to entry for new investment, but certainly 35% is no barrier at all. Why would I build something if I could sell it here for the same price?

The Chair: I thank the witnesses for all the information today and the good questions. We had a good day.

This is not the last we're going to hear from the auto industry. Our committee's going to be travelling across the country, so we might be in your town. You'd be welcome to come.

On that point, thank you very much for coming. It was an informative day.

We'll suspend the meeting as we're going to go in camera as soon as the room is cleared.

[Proceedings continue in camera]

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