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## **Standing Committee on International Trade**

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**EVIDENCE**

**Thursday, April 14, 2016**

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**Chair**

**The Honourable Mark Eyking**



## Standing Committee on International Trade

Thursday, April 14, 2016

• (0845)

[English]

**The Chair (Hon. Mark Eyking):** Good morning everyone on this beautiful day in Ottawa. We're almost like British Columbia, but your flowers are up already. Ours are just coming.

We have an exciting morning. We have our Auditor General. It's good to see you, Mr. Ferguson. Thank you for coming with a suggestion for us. Our committee is welcoming you here. You have someone with you, Nicholas Swales. We have an hour this morning, and my understanding is it's about the products coming across the border.

Mr. Ferguson, this is not your first time sitting in front of committee. You know the routine, so the floor is yours for however long you want it, then we'll have some questions. Thank you for coming. Go ahead sir.

**Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada):** Thank you.

[Translation]

Mr. Chair, thank you for this opportunity to discuss our report on controlling exports at the border that was recently presented to Parliament. Joining me at the table is Nicholas Swales, principal, who was responsible for the audit.

Exports are vital to Canada's economy, but some are controlled to achieve a range of policy objectives, such as protecting Canadians' safety and security. Although several federal entities play a role in controlling exports, the Canada Border Services Agency is the last line of defence to prevent goods that contravene Canada's export laws from leaving the country.

Our audit focused on whether the agency had the necessary information, practices, and controls at the border to enable it to implement its enforcement priorities, prevent the export of goods that contravened Canada's export laws, and facilitate legitimate trade.

We found weaknesses in the information, practices, and authorities the agency applied to assess export risks, assign its resources, and act on its priorities. As a result, the agency missed opportunities to stop some goods that did not comply with Canada's export control laws from leaving the country.

• (0850)

[English]

For example, the Canada Border Services Agency relied on export declarations to identify and examine high-risk shipments, but was

unable to review all the declarations it received. We noted that it was not able to review export declarations received on paper as rigorously as those received electronically. The agency's ability to continue the level of review of electronic declarations was also at risk because of uncertainty about the future of the system that collects these declarations.

Once the declarations are reviewed, the agency recommends that its staff at ports of exit examine selected high-risk shipments. These processes were effective on some measures. For example, the agency found approximately 700 stolen cars in 2013 and 2014. Furthermore, the agency prevented the export of several shipments that were cause for national security concern.

However, about one in five high-risk shipments identified by the agency's centralized targeting unit was not examined at the port of exit. We also noted some systematic gaps in coverage. For example, as a result of staffing challenges, the agency did not conduct any examinations of parcels leaving Canada at one large processing centre.

We found that the agency had limited information, capacity, and authority to review and examine shipments that were not reported on export declarations. For example, the agency had limited ability to conduct random examinations of these shipments, which hindered its ability to assess the level of non-compliance.

[Translation]

We also looked at the impact that the agency's export control activities had on legitimate trade. The Canada Border Services Agency's mandate includes facilitating the free flow of goods. However, to ensure that exported goods comply with Canada's laws, the agency must stop and examine some shipments at the border, resulting in possible delays and increased costs.

We found that the number of legitimate export shipments that were delayed by the agency's control activities was very small compared with total exports. However, the agency did not process 11% of temporarily detained shipments in a timely manner. Our survey of exporters whose shipments were delayed but later released found that some experienced a major impact including lost sales and contracts.

[English]

We also looked at the timelines of export permit processing by Foreign Affairs, Trade and Development Canada, now Global Affairs Canada, and we found that the department was meeting its service standards.

We made six recommendations to the Canada Border Services Agency. The agency prepared an action plan to address each of our recommendations and presented it to the Standing Committee on Public Accounts.

Mr. Chair, this concludes my opening remarks and we would be pleased to answer any questions the committee may have.

Thank you.

**The Chair:** Well, thank you very much for that presentation and some eye-opening comments.

We're going to start off with Mr. Ritz for five minutes.

**Hon. Gerry Ritz (Battlefords—Lloydminster, CPC):** Mr. Ferguson, and Mr. Swales, welcome, and it's good to see you again.

I'm more than puzzled on some of the things that you found. On point 7 here you talk about five high-risk shipments. What's your definition of a high-risk shipment?

**Mr. Michael Ferguson:** Actually, first, it's what CBSA considered to be a high-risk shipment. Through their process of identifying the types of things that they are looking for they established three priorities, which we lay out in the report, about looking for technologies that could be used to develop dangerous weapons, and that this needs to be controlled; looking for the proceeds of crime, essentially, stolen parts—

**Hon. Gerry Ritz:** Both shipments coming in and going out?

**Mr. Michael Ferguson:** No, this audit was about export control.

**Hon. Gerry Ritz:** Export only, okay.

**Mr. Michael Ferguson:** Then their third priority was realizing that export permits are required in some cases. It was important that organizations or shipments that need export permits have those export permits, but that was a little harder for them to manage.

Essentially, they had established three areas of priority. Through looking at export declarations when declarations were needed, for example, they had a process of identifying what was a high-risk shipment. It wasn't us saying something was a high-risk shipment, it was the department saying it was a high-risk shipment.

• (0855)

**Hon. Gerry Ritz:** Also, in that same bullet point you make a challenge that it's a result of staffing challenges. Are we talking about not enough personnel on the front line? When you make a claim like that, do you actually then look at the efficiency and effectiveness of where they place their personnel? Are they overweighted on administration and not enough on front line?

Do you look at that as part of your overview as well that they could have more effective and efficient use of their personnel?

**Mr. Michael Ferguson:** I think what we were reporting on there, essentially, was a result of the fact that the Canada Border Services Agency considers the control of imports to be their number one

priority. They are much more concerned about what's coming into the country. That's where they put their priority, and that's how they allocate their resources, first to those types of things.

We recognize that departments will often operate under resource constraints. The world is always operating under resource constraints, so we recognize that's the case. What we were looking for essentially was once they decided the level of resources to put towards export control, whether they doing it in a systemic way of covering the issues. We found that there were predictable gaps in the way that the system was set up.

**Hon. Gerry Ritz:** The process is flawed.

**Mr. Michael Ferguson:** Again, some of the activities were working. When they were able to target something and look at it, they were finding things. The problem was that the gaps in the system were predictable, so if somebody was trying to get around the export controls that Canada Border Services Agency had in place, it was easy to identify how to do that.

**Hon. Gerry Ritz:** We call that smuggling.

On another point, you say the agency has a concern that when they review something electronically, there's uncertainty about the future of the system. How is that possible? Don't they have a robust enough system to handle it? How could there be uncertainty in a system that's up and running?

**Mr. Michael Ferguson:** I'll let Mr. Swales give more of the details on this. This was essentially because the system they were using was put in place originally by Statistics Canada to collect more statistical information rather than a system originally designed for export declarations.

**Hon. Gerry Ritz:** It's not as user friendly as it should be then.

**Mr. Nicholas Swales (Principal, Office of the Auditor General of Canada):** Mr. Chair, it's not just that it wasn't user friendly, though that's certainly an issue. The other issue was it was an old system that Statistics Canada basically wanted to retire and had been wanting to retire for a number of years. The question was if it was to be retired, what would replace it. That was what was uncertain.

**Hon. Gerry Ritz:** Okay, but you're not going to lose the data. The data would still be there, but you would have to merge it into the new system then.

**Mr. Nicholas Swales:** What we would need is that the new system could still receive the declarations electronically.

**Hon. Gerry Ritz:** How old is the system they are using?

**Mr. Nicholas Swales:** I'm sorry, I don't know that off the top of my head.

**Hon. Gerry Ritz:** But it's obsolete. Every year the stuff is gone.

**Mr. Nicholas Swales:** Yes. It's quite an old system.

As we said, they had started to think about replacing it as early as at least since 2009 so it has been quite a long time that they have even been at that stage.

**The Chair:** Thank you.

We're going to go to the Liberals now. Mr. Dhaliwal is up first, for five minutes.

**Mr. Sukh Dhaliwal (Surrey—Newton, Lib.):** Thank you, Mr. Chair, and thank you, Mr. Ferguson and Mr. Swales.

Mr. Ferguson, you note that Canada's border agency did not fully have the necessary authorities, information, practices, and controls to implement its enforcement priorities.

Even though you did the audit on the export of the goods, for me it's also alarming when it comes to the imports of the goods. This is particularly alarming to me when my constituents of Surrey—Newton have been riddled with gun violence over the last few months. There have been 30 shooting incidents in Surrey since the start of 2016. The safety of constituents is the foremost responsibility for us elected representatives.

What improvements in regard to authorities, information, practices, and controls would better assist the Canada Border Services Agency in combatting the problem of illegal smuggling of these guns across our borders?

• (0900)

**Mr. Michael Ferguson:** Mr. Chair, the only thing really I can speak to at this point is the audit we undertook. That audit was focused on export controls, controlling exports, the work the Canada Border Services Agency does to do that.

In the past we have done some work on import controls as well, but this particular report was about the export controls.

We have made a number of recommendations to the organization, and I think maybe the one that is perhaps most pertinent to the question is the recommendation we made that the Canada Border Services Agency should take steps to ensure that gaps in coverage of export examinations are not predictable.

Again, that's not the import of the types of things that were mentioned in the question. A broader approach is important is to make sure that any of these controls are functioning in a way that is not predictable. In terms of export control, really the thing I want to mention is there are not controls on all exports leaving Canada. There are only controls on some exports.

The reason it's important for there to be those controls on exports is that Canada wants to make sure it is not exporting unapproved weapons technology that could be used to develop weapons of mass destruction, or that they are helping to combat organized crime by preventing the proceeds of organized crime from exporting the country and being sold, and then also making sure Canada is living up to its international commitments to put controls on some of these exports.

There are the two aspects obviously to international trade, the import and the export. This particular audit that we completed was primarily on the controlling of the exports, but there would be some things in this that could be considered in light of import controls as well.

**Mr. Sukh Dhaliwal:** It is my understanding that when CBSA was created in 2003 it combined powers of Canada Customs and Revenue Agency, Citizenship and Immigration Canada, and the Canadian Food Inspection Agency.

Are there any measures that any of these departments can put into place that can assist CBSA in being a more effective, transparent, and efficient party?

**Mr. Michael Ferguson:** Again, this particular audit that we reported on and presented to Parliament was looking at the Canada Border Services Agency's role in export control. We were only really looking primarily at that. We looked a little at what Global Affairs Canada does in terms of issuing export permits, but, fundamentally, this was looking at CBSA's role.

We have identified that when you're dealing with exports, there are many government departments and organizations involved. It is not just CBSA. I think it certainly is very important for all of those partners and connected organizations to have a good way of working together to make sure that they're aware of what each other is doing.

I can't speak specifically, and maybe Mr. Swales will have some more comments on it, about all of the interactions that were going on in this particular world, but I can tell you that in many audits that we have done on many different subjects, an issue that is a common theme that comes up is often that departments have difficulty communicating with each other when multiple departments are actually involved in a particular program. That's something that needs to be improved, but I'll ask Mr. Swales to see if he has any more on that.

• (0905)

**The Chair:** We'll have some time for Mr. Swales maybe a little later. We have to switch. Your time is well over, Mr. Dhaliwal.

We have to go over to the NDP now. Ms. Ramsey, five minutes.

**Ms. Tracey Ramsey (Essex, NDP):** Thank you for your report. It's very comprehensive. I'd like to know that what we're talking about excludes export shipments to the U.S. We're simply talking about all other borders, is that correct?

**Mr. Michael Ferguson:** That's correct.

**Ms. Tracey Ramsey:** I want to drill down into what one of my colleagues was mentioned, and that's the staffing levels. I'm going to specifically reference your report, page 9:

2.46 Staffing levels. Agency officials told us that one reason for not examining targets was not having staff available at the time needed to do so. We found that the Agency did not continue its usual level of export control activities during temporary staff reductions, such as vacation, sick leave, or reassignment to higher-priority import control duties. We found that at one port of exit, no export control examinations were conducted when the assigned border services officer was on vacation. As another example, due to staffing fluctuations, the centralized unit that reviews rail shipments had once gone longer than a month without any targeting.

I'm curious, in your report, why did the OAG not specifically recommend that the CBSA review staffing levels?

**Mr. Michael Ferguson:** I'm just going to double-check in this area. We made a couple of recommendations, one in 49 and one in 50, and also in 51, which was a broader type of recommendation: "should take steps to ensure that gaps in coverage for export examinations are not predictable".

That would cover both looking at resourcing and looking at how resources are assigned to various different activities.

**Ms. Tracey Ramsey:** Seeing these gaps, a strong recommendation to add some additional staff would correct some of these gaps that you've identified. Of course we all understand the importance of safety.

One of the other questions I have is around the automated risk identification tool.

The CBSA currently obtains electronic declarations from exporters through an automated system that you identify as being operated by Stats Canada. This system "does not have the capacity to automatically identify declarations that may be high-risk so that targeting units can focus their reviews". What is more, Stats Can is planning to shut down the system in January 2017.

How much easier would an automated risk identification tool make it to target those exports that should be controlled?

**Mr. Nicholas Swales:** Part of the problem with the system is it was not designed for risk assessment. It was designed, essentially, for statistical data collection.

**Ms. Tracey Ramsey:** But if there was one to be designed—

**Mr. Nicholas Swales:** One that was designed to do that would make a substantial difference, because it would allow you to encode into the system rules to look for things, which at the moment has to be done entirely by staff.

**Ms. Tracey Ramsey:** Is that CBSA's strategy, to replace the automated system that's operated right now by Stats Can with one that's credible and viable, and created for that purpose?

**Mr. Nicholas Swales:** That is their long-term goal, yes.

**Ms. Tracey Ramsey:** In January 2017 this one will expire. Will it be in time for January 2017 so that we don't have any further risks at our export borders?

**Mr. Nicholas Swales:** That was what led us to make the comment about uncertainty, because at the time that we were doing this work there wasn't a clear way forward agreed between the two organizations.

**Ms. Tracey Ramsey:** Can you give us a snapshot of reports of things that have been exported, that have been identified, that have been caught? We heard about the cars. Can you give us a snapshot and tell us which countries they were being exported to? Is there one particular country that stands out as being more of a risk than others?

**Mr. Michael Ferguson:** What we identified was just sort of in the general sense, so I can't give you the specifics of that. As you mentioned, we identified the issue of exporting of stolen cars, but also that there were some technologies that they identified that they stopped through their targeting. Again, I can't give the specifics.

**Ms. Tracey Ramsey:** Would it be reasonable to request that you undertake a report of that and return it to the committee?

**Mr. Michael Ferguson:** We don't have any further audits under way on this particular topic. If the committee would like to ask us to do an audit, we certainly would consider that. If that's something the committee would like to ask us to do, then we would figure out how and when we can do that.

● (0910)

**Ms. Tracey Ramsey:** Okay.

How much of a risk has the export of non-compliant goods posed to the safety and security of Canadians and populations abroad?

**Mr. Michael Ferguson:** I think our prime concern there is when they target something and they look at it they are able to identify things that shouldn't be exported.

Our concern is that they're only able to look at 20% of what they actually say needs to be looked at that is a high risk. That's really what the concern is.

When they're looking at things they're successful. It's what they're not able to look at that they've identified as high risk.

**Ms. Tracey Ramsey:** Thank you.

**The Chair:** We're going to move over to the Liberals, but before we go to the Liberals I'd like to welcome Mr. Picard. He's from the riding of Montarville and he's the PS to Minister Goodale who is, of course as everybody knows, the Minister for Public Safety.

Mr. Peterson for five minutes.

**Mr. Kyle Peterson (Newmarket—Aurora, Lib.):** Thank you, Mr. Ferguson and Mr. Swales, for being here today. We appreciate your time and making yourselves available to answer our questions.

I want to pick up a little bit on what my colleague was discussing in regard to gaps, as I think you identified them. I may be presuming, but if there's a new software system in place, that may address the gaps and there may not be the necessity to hire more staff.

Your recommendation is to address the gaps. I think perhaps that's why you weren't specifically saying hire more people to fill these gaps because maybe some sort of predictive software, maybe there's a way when we start tracking more information on the exports, there are ways to target potential at-risk shipments. Is that fair? Is that a reasonable presumption for us to make that a more sophisticated system would perhaps close some of these gaps without the necessity of extra staffing?

**Mr. Michael Ferguson:** We weren't prescriptive on each of the aspects that they need to look at. Again, when you look at the issues that we raised in here, there were a number of issues in a number of different areas.

For example, if somebody was exporting something that didn't need a permit but needed a declaration, they could file that declaration at any CBSA office, regardless of where the shipment was leaving, regardless of the port of exit for that shipment.

If the shipment was leaving by plane they only had to file the declaration two hours before the plane leaves. They can file the declaration in one office somewhere in the country. The plane can leave from somewhere else. That declaration can be made on paper, not necessarily electronically. They have two hours to look at it and decide whether something needs to be done, get in touch with the Border Services Agency at the airport, get the shipment and examine it.

When you're dealing with something that's leaving by ship it's 48 hours, but even still that's still a short window when you've got declarations coming in in one part of the country and you've got goods leaving at another part of the country.

There are a number of gaps and issues in this whole system around controlling exports. That's why we weren't particularly prescriptive. We feel that they just need to look at the system from beginning to end and figure out how to make those gaps less predictable.

**Mr. Kyle Peterson:** You mentioned in your opening that it's a relatively small number compared with the total exports, and I think you did peg it at 11% of temporarily detained shipments that weren't necessarily released in a timely manner.

To characterize that as small, did you do any comparisons to other countries? Are there best practices out there in the universe that you were able to compare to, to benchmark what it was that our CBSA was doing?

**Mr. Michael Ferguson:** No. Certainly in terms of what types of shipments need to be detained, that's based on the laws of the individual country, the systems that are in place, and that sort of thing. Yes, for shipments that need to be detained and examined, they need to do that, look at them, and do the examination as quickly as possible. Our concern was that if something is a legitimate good that can be legitimately exported, they need to make sure they get through that process as quickly and expeditiously as possible so that it doesn't interrupt the free flow of goods and legitimate trade. Our concern there was about the situations where something was detained but it was all right, and how long it took to release that into the market.

•(0915)

**Mr. Kyle Peterson:** That would potentially have an adverse effect on the commercial interests of the exporter. You said that "some", in your words, experienced major impact, including lost sales and contracts. Can you quantify that number "some"? Do you mean some of that 11%?

**Mr. Nicholas Swales:** Mr. Chair, in paragraph 78 we talk about the work we did to try and get at that question, which was to survey the exporters whose goods were detained. We got responses back

from about half of the exporters whose goods had been detained and subsequently released in our period. Of them, 11% said they had had a major impact. Now I know it's 11%, but it's not the same 11%.

**Mr. Kyle Peterson:** That was some of my confusion. Thank you for clearing that up.

You refer to it as a survey. What approach was taken statistically? Did you sample exporters? How was this evidence gathered?

**Mr. Nicholas Swales:** Mr. Chair, we sent a survey to every exporter who had had a shipment detained and then released. There were only 300 such shipments during the period of our audit, which gets back to your initial question about how many. There are millions of containers that leave the country every year, and there were 300 that were detained and subsequently released, which gives you a sense of the overall magnitude. We sent the survey to every single one asking them about that specific shipment, and about half of them responded to us.

**Mr. Kyle Peterson:** Okay, so are you confident that was a statistically valid approach?

**Mr. Nicholas Swales:** Yes.

**The Chair:** Thank you.

We have Madam Lapointe, starting off for five minutes.

[*Translation*]

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

Mr. Ferguson, thank you for being here with us today.

Earlier, you talked about shipments outside the country and abroad. You said that there was a two-hour wait for shipments leaving by plane and a 48-hour wait for those leaving by ship. That was really for outside the country, but it was not related to U.S. customs.

**Mr. Michael Ferguson:** That's right.

**Ms. Linda Lapointe:** Those are exports. Do they also go through the United States?

**Mr. Michael Ferguson:** Those are not exports for the United States.

**Ms. Linda Lapointe:** So they leave only by ship and plane?

**Mr. Michael Ferguson:** Yes.

**Ms. Linda Lapointe:** Okay, but could we not go through the United States to ship exports to Mexico, for instance? I know that companies in my riding must pass through the United States to get their exports to Mexico. Have delays occurred in those cases? You said that products were detained, which had an impact. Could you give us some examples?

**Mr. Nicholas Swales:** It is true that some exports go through the U.S.

**Ms. Linda Lapointe:** They use truck convoys.

**Mr. Nicholas Swales:** Exactly. However, in principle, they are part of our work because they are not exports for the U.S.

**Ms. Linda Lapointe:** Okay.

What would happen if they were inspected and detained? For instance, I am thinking of Aliments O'Sole Mio, a company based in Boisbriand. That company exports its products to Mexico and, if they were detained at customs, that would be problematic. You know that products have a certain deadline for the trip. They must cross the U.S. within six days, otherwise they don't meet their shelf life once in Mexico. Have you seen cases like that? That is still a lot of time. If you are preventing fresh products from reaching Mexico, you are taking away from their quality.

**Mr. Nicholas Swales:** That was exactly our comment about the potential delays.

We have noticed two things. First, in a relatively small number of cases, which still add up to 11%, when the products were inspected and delayed as a result, we noticed that they were not being handled in the most effective way.

Second, before they even reached customs to be examined, exports may have had to wait a while before arriving at the destination. There was actually very little information about that, but there was more information about containers. As a result, we were able to find out that 26% of shipments were detained for seven days before customs even had the opportunity to examine them. So there are certainly risks involved in the situation you're describing.

• (0920)

**Ms. Linda Lapointe:** Okay.

Earlier, you talked about technologies and stolen cars.

Do border services look specifically for other risk factors for Canada in the products that we want to ship?

**Mr. Michael Ferguson:** Yes, of course, and we have identified those issues in a table. Item 2.1 outlines the three priorities in that regard.

**Ms. Linda Lapointe:** Were you looking for cigarette smuggling? That's a very common activity and those products move around.

**Mr. Michael Ferguson:** I think the agency focuses on stolen cars and the aspect of goods obtained by crime. The agency focuses on identifying circumstances in which vehicles are exploited. That's its priority.

In the audit, we have also observed a lack of activity in identifying drug exports, perhaps because there are challenges with how to identify those types of exports. The agency has identified that type of risk as one of its priorities, but the bulk of its work was targeted toward identifying the cars.

**Ms. Linda Lapointe:** We can agree that there may be things other than cars to consider.

[English]

**The Chair:** Time's up.

[Translation]

**Ms. Linda Lapointe:** Already?

[English]

**The Chair:** You have such good questions and good answers, but there's going to be another round coming back probably to the Liberals.

We have Mr. Hoback.

**Mr. Randy Hoback (Prince Albert, CPC):** Thank you, gentlemen, for being here this morning.

How did your audit compare to existing Canada Border Services' own internal audits as far as the process? Is it very similar or is it unique?

Does Canada Border Services actually do their own internal audits?

**Mr. Nicholas Swales:** They certainly do. They have an internal audit and evaluation function and their reports are published publicly on their website.

**Mr. Randy Hoback:** How does your audit compare to their audit?

Did you identify things that weren't identified in their own audit?

**Mr. Nicholas Swales:** I think they've done an evaluation relatively recently on exports, but not on export controls, but not an internal audit. I don't think there's a really a relevant comparison at this point.

**Mr. Randy Hoback:** Explain to me your comment about the agency's ability to continue the level of review with electronic declarations because of the risk of uncertainty of the future. To me that's like saying I'm not going to use Microsoft Word today because they might have a new version of Microsoft Word tomorrow.

Why wouldn't they be embracing the system that's there today until there actually is a new system in place?

Why would there be hesitancy because there's a possibility down the road that they might have a new system?

**Mr. Michael Ferguson:** Again, the system was originally developed by Statistics Canada to collect statistical information about exports rather than being a system that was designed for the control of exports. I think the issue is about how long is that system going to exist, does CBSA need a system that will do other things beyond what that system is doing right now—

**Mr. Randy Hoback:** So they're looking for expansion based off what system they have in place? Do we expand off this system with new tech hardware, for example, or do we just go all brand new? Is that fair to say?

**Mr. Michael Ferguson:** Well, in terms of all of those types of decisions, I think they would have to speak to what their options might be.

**Mr. Randy Hoback:** They need a game plan.

**Mr. Michael Ferguson:** That's right.



**Mr. Randy Hoback:** Do you know if they made a budget request? I don't see anything in the budget for them to put new systems in place or to acquire the personnel they need or the adjustments and movement of personnel. Are you aware whether, after your audit and the recommendations that you've made and that they say they're accepting and working with, they actually made the physical ask for the money to make the changes?

**Mr. Michael Ferguson:** We made a recommendation in paragraph 33 in the report that they should ensure that they can continue to receive the timely export declaration information that they need for export control and that system changes at least maintain the current level of review of declarations. Their response was that the Canada Border Services Agency will follow its project management and service life-cycle management frameworks.

The direct answer to your question is I don't know whether they have made an ask for more money. What they have said is that they're going to examine this issue through their project management for IT systems, and somewhere along the line in that project management framework would be the step of identifying how much it costs and where the money would come from.

● (0925)

**Mr. Randy Hoback:** So then you look at this and you've done a benchmark, one might say, right now with this audit, and we haven't seen anything in the budget for them to receive any funding specific to some of these issues that they've identified.

When will you follow up and actually see whether it's going to be next year they'll make changes, that based on your audit, they've actually been proactive and addressed the recommendations you made, they've put in changes to make sure there's a timeline in place, the software is going to be there, the hardware is going to be there, and the personnel is going to be there? When do you do a follow-up to make sure that those recommendations receive more than just lip service? They claim they'll do what you say. When are you going to check to see if they actually do what they say they'll do?

**Mr. Michael Ferguson:** We do follow-up audits from time to time. When we do a follow-up audit though, what we do is we look at a number of audits we've done over a number of years, and select which ones we are going to follow up on. We can't follow up on each and every audit. We haven't yet decided whether this would be one that we would follow up on or not.

Now, again, the agency prepared an action plan in response to our recommendations. That action plan was tabled with the public accounts committee. So certainly we also look to these types of committees—committees of Parliament—to help make sure that the departments are doing what they say they are going to do when they respond to the recommendations and when they put an action plan in place.

For us to do a follow-up audit, we would have to give them a little bit of time, a couple of years, to actually implement the recommendations and then we would start up another audit. One of our audits usually takes about 18 months, so for something like this we're easily out four or five years before we would be coming back and reporting on it. That's why it needs to be essentially a partnership between what we do and what the committees do, to

make sure that the departments are living up to what they say they're going to do.

**Mr. Randy Hoback:** That's fair. What's the cost of an audit like this?

**Mr. Michael Ferguson:** The average cost for an audit like this, I'm going to say, is over a million dollars, probably \$1.2 million, something like that. That's an all-in cost, fixed costs, overhead costs, direct cost of auditors, everything. When we allocate all of our costs of what we do, it's probably about \$1.2 million.

**The Chair:** Thank you.

We're going to move over to the Liberals now and we've got Ms. Ludwig for five minutes.

**Ms. Karen Ludwig (New Brunswick Southwest, Lib.):** Thank you for an excellent presentation, very very interesting.

How did you choose stolen cars as the focus of the audit?

**Mr. Michael Ferguson:** Actually, the focus of the audit was on how Canada Border Services Agency manages export controls. We looked at what they say their priorities are. They had three priorities. They had targeting units. They had a targeting unit to identify shipments that they suspected might be exporting technologies that shouldn't be exported. They have another targeting unit that was looking at stolen goods, and they decided to put the emphasis on vehicles.

We didn't decide to go look at stolen vehicles. Our audit was about what they were doing, what they had decided were their priorities and what they had directed their targeting units to do. One of the things was to identify shipments of stolen cars.

**Ms. Karen Ludwig:** We have a company and we do a fair bit of exporting, and we do go through the United States to export to Bermuda. What types of tools or countervailing strategies or measures do you suggest are available that mitigate the risk of the two-hour time frame?

**Mr. Michael Ferguson:** Again, I think that's sort of part of the whole risk framework that CBSA needs to consider. I think the most concerning part of it is that somebody can file a paper declaration in Vancouver for goods that are leaving the country from an airport in Halifax, for example. There's a paper declaration filed in one place, a CBSA officer would then have to be able to look at it, decide, "Okay, this looks like it's a problem", get in touch with somebody at the airport that the goods are leaving from, and then have the shipment actually looked at.

I think, again, electronic declarations would help with that. Then, as Mr. Swales mentioned earlier, having some ways in the system that would put up some red flags about some things about this shipment that should be looked at so that this information gets very quickly to the people at the port of exit where the goods are leaving from.

● (0930)

**Ms. Karen Ludwig:** If an exporter has been identified as an exporter of risk, but the situation is cleared, is that exporter flagged for closer inspection going forward?

**Mr. Nicholas Swales:** Not necessarily.

**Ms. Karen Ludwig:** What other agencies does the CBSA coordinate with, or should coordinate with, to better control exports?

**Mr. Nicholas Swales:** The discussion that we have about that in the report is around this question of the agency's third priority, which is the controls of other organizations. What we say is the way in which that is done by the other organizations is pushing targets to CBSA and saying, "Could you please find and look at this". Our concern was that CBSA then didn't gather information on what happened, so that made it difficult for there to be a feedback loop as to how effective they were being. Certainly, what we recommend is that they establish a better risk assessment, which would require them to be having a dialogue with those organizations that issue permits.

**Ms. Karen Ludwig:** Could you imagine that it would be a shared database among the organizations that are key players in this?

**Mr. Nicholas Swales:** It certainly could be. One example of that, and we don't describe it in here, but it's known as part of the process, is the database that manages export permits with Foreign Affairs, which is a database in which they collect and issue the permits, and the agency has some access to that information.

**Ms. Karen Ludwig:** Why did your audit exclude the United States when roughly 90% of our exports are bound for the U.S.?

**Mr. Nicholas Swales:** The reason is that the primary means by which the agency is able to do its control work is through export declarations. Export declarations are not required for goods to the United States other than in certain cases where certain permits are required. That is because the system was set up based again on export statistics rather than on risk assessment. We have an agreement with the United States that says we'll use their import data as our export data. That means that we don't get declarations, and that is all permitted under the regulations.

**Ms. Karen Ludwig:** Great, thank you.

**The Chair:** Thank you.

We're going to go over to the Conservatives for five minutes. Mr. Van Kesteren

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

It's an interesting topic. I would have thought that of all the things to audit this would be one of the last things on the list, but I suppose there are risks there. One of the possible risks that hasn't been mentioned yet is that Canada is a through-port to go to the United States. How much of the audit focused on those things that come, say, from Europe that are going to the United States through the Canadian ports? Anything at all?

**Mr. Michael Ferguson:** I'll let Mr. Swales provide more detail, but fundamentally what the audit was looking at was items that Canadians are exporting that need declaration, so to the extent that's what the process is. As Mr. Swales mentioned, something that's destined for the United States from a Canadian exporter wouldn't need a declaration, so there would have been nothing to select from. But I'll see whether he has anything he would like to add.

● (0935)

**Mr. Nicholas Swales:** That's correct. The goods would have been assessed in most cases as they enter Canada as imports, rather than being considered as exports.

**Mr. Dave Van Kesteren:** Yes, but then they get exported to the U.S.

**Mr. Nicholas Swales:** Yes, I'm not saying that they weren't exports. What I'm saying is that the risk assessment would be done on them as an import into Canada, and then not done as they left to the United States because of the exclusion on exports to the United States.

**Mr. Dave Van Kesteren:** Ms. Ludwig was alluding to something that I wanted to go to, and that is that although we have a responsibility, and the responsibility is to wherever our exports are going, it would appear to me that the larger part of that responsibility would be from institutions like Interpol and the RCMP. It's been asked a number of times, but how much direction would come from this agency from those institutions, and do they have strong links to those institutions?

**Mr. Michael Ferguson:** It's important to remember the types of things that CBSA has put as its priorities in this area. There are different reasons why export controls are important, and they're not all necessarily international. Obviously, when you're dealing with export control, you are dealing with international trade. But, again, one of the reasons for export controls is to identify the proceeds of organized crime, something going on within the borders of the country, and making it harder for organized crime to profit from its activities.

CBSA would use whatever information they have available to them to be able to identify exporters that they consider to be risky exporters. But, again, in terms of the extent to all of that co-operation, as Mr. Swales mentioned, really what they do is they receive information from other organizations, other government departments, and because they can't do things like random searches of goods being exported, they don't really have the information to know the extent to which things are being exported without a permit. They do get some of that information from other partners, and they use that information to identify exporters that are at risk.

Again, this whole activity of export control is more just a series of activities, rather than a coherent system from beginning to end, to be able to identify those shipments that would be risky shipments.

**Mr. Dave Van Kesteren:** In terms of our reputation globally, was that something that you looked at, too? How are we viewed by the rest of the world? Are we a country that has fairly good restraints or are we loose?

**Mr. Michael Ferguson:** We didn't do a survey of the opinion of other countries about Canada's exports. Again, I think CBSA have established their priorities very much in a way that is intended to try to respect Canada's international obligations. Whether it be to prevent the export of weapons technology or whether it be making sure that export permits are obtained in the places they're supposed to be obtained, they have put the emphasis on those types of things. From a priority-setting point of view, they've done a reasonably good job of doing that, and identifying that we need to make sure that we're living up to those international obligations and our international partners can have confidence in that. But then when we looked at the whole system, there were gaps in the system that would say that anybody who is trying to get around that system would be able to identify where those gaps are and how to get around them.

• (0940)

**The Chair:** Thank you.

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

**Ms. Tracey Ramsey:** My question is on paragraph 2.60 and it's very concerning to me. When we're talking about illegal drugs that are being exported out of Canada I understand that's a high-risk area: "Agency officials told us that the limits on their examination authorities reduced their effectiveness in preventing the export of illegal drugs. This limited authority, together with limited resources, resulted in the Agency's not setting export of illegal drugs as an examination priority."

Further down in paragraph 2.61 they mention that "the Agency did not have the authority to conduct random examinations of non-reported shipments."

I wonder if you can expand a little bit on what these limited authorities and limited resources are that are essentially having illegal drugs leave our country destined to others.

**Mr. Nicholas Swales:** Mr. Chair, the authority limitation is, as we explained, that non-reported shipments cannot be opened at random. This means that the officer needs to have information of some kind from a shipment, but not a declaration, and he needs to form an opinion that there is a risk. This means that you can't get a sense of how much of this is happening and where it's happening.

**Ms. Tracey Ramsey:** So the limited resources, then...?

**Mr. Nicholas Swales:** The limited resources are to do with these points that we make in the other section of the report where we talk about where there is not systematic coverage—Canada Post parcel centres being an area of risk in this regard—and one of them didn't have any coverage at all.

**Ms. Tracey Ramsey:** So by "coverage" you mean staff shortages, that there weren't enough staff there?

**Mr. Nicholas Swales:** We mean that nobody was looking at the parcels going for export.

**Ms. Tracey Ramsey:** Okay.

There's no mention of locations of export. Is there an export point in Canada that is more vulnerable?

**Mr. Michael Ferguson:** We didn't get down into that level of detail so I couldn't tell you which port was the most at risk. That's something that perhaps CBSA could give you information about.

**Ms. Tracey Ramsey:** Okay.

You also mentioned sanctions and that we could impose sanctions based on this. Have we ever had to impose sanctions on an exporter or a country, and if so, under what conditions?

**Mr. Nicholas Swales:** There are sanctions that have been imposed on a number of countries. Most recently of course there were a number imposed on Russia, or business interests in Russia, so that's the kind of thing that we're talking about; whereas, as a result of a public policy decision, certain organizations' freedom of action commercially with Canada is restricted.

**The Chair:** Time is up, Ms. Ramsey.

Mr. Fonseca.

**Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.):** Thank you for your informative presentation.

This committee is studying the TPP, and we've gone through CETA, etc., and the potential ratification of those agreements with Europe and with the Pacific Rim. I don't know if this came up, the extra work the CBSA would be doing on these export permits, so looking to the future in all of these other countries where we may be doing a lot more trade. Are they looking towards their horizon? What is coming down the pipeline?

**Mr. Nicholas Swales:** We didn't look at it from that perspective. Our concern was that even with the current volumes, the systems and practices they had in place were, in a number of ways, not able to keep up.

**Mr. Peter Fonseca:** So in knowing that there is potentially a lot more work coming along, you'd see this as a pressure.

**Mr. Michael Ferguson:** Mr. Chair, the issue is very much that there are controls there or expectations that Canada control some of its exports. Again, based on international agreements, based on our own laws, there are expectations that we put reasonable controls in, not to look at everything that's leaving the country, but to have a system that's based on risk, that's based on sampling, and that type of thing so that it is not predictable where the gaps are in that system.

Regardless of all of those things on the horizon—and there may be things that add more pressure to the export system in Canada—I think it's very important that they have a system that's coherent from beginning to end that is not predictable and that will allow them to get a sense of whether things are leaving the country that shouldn't be.

• (0945)

**Mr. Peter Fonseca:** Did you look at global best practices, or how we stack up on the global scene, when it comes to these export permits?

**Mr. Michael Ferguson:** No. The short answer is no, we didn't.

But I think, again, these types of controls are very much dependent on the international obligations that Canada has signed on to, the laws that Canada has created for itself. It would be difficult to compare one country with another, because all of that environment would be different.

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

That finishes up our questioning.

On behalf of the committee, I'd like to thank you, Mr. Ferguson and Mr. Swales, and all your team, who work so hard, having their eyes and ears out there for things that sometimes we as parliamentarians don't see. Thanks again for your submissions today and all the good questions.

Right now we're going to suspend and go in camera.

*[Proceedings continue in camera]*

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