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Chair

The Honourable Mark Eyking

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• (1535)

[English]

The Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): I call the meeting to order.

Good afternoon, everyone. Sorry, I'm running a little late. I can't blame the weather because it's a beautiful day out there.

We're honoured to have Mr. Ferguson here. Thank you for coming, sir, and bringing your...we wouldn't call them sidekicks, would we? Your advisers? Your assistants?

Thank you for coming before our committee. Our committee's been quite active in the last while. As you may know, we have finished the European agreement, we were working on TPP, and now our main study is NAFTA.

Without further ado, you have the floor, sir.

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

Mr. Chair, thank you for this opportunity to discuss our spring 2017 report on customs duties. Joining me at the table are Richard Domingue and Philippe Le Goff, who were responsible for the audit.

Our audit focused on whether the departments of Finance Canada, Global Affairs Canada, and the Canada Border Services Agency carried out their roles and responsibilities in managing customs duties on the many goods imported into Canada each year.

In the 2015-16 fiscal year, federal government revenue from those duties was more than \$5 billion. Many tariff items raised little revenue. For example, in 2015, 1,973 tariff items generated only \$26 million. That is less than one half of 1% of duty revenues. In addition, 57% of customs duty revenues were generated by only three categories of goods, those being apparel, footwear, and vehicles and auto parts.

[Translation]

We found that the Canada Border Services Agency was unable to assess all customs duties owed to the government because its import controls were not working adequately.

The import forms filled out by importers and customs brokers were not always useful to the agency. For example, the quality of the product descriptions entered on the forms was generally poor. Almost 75% of the records we examined did not have descriptions that allowed us to determine whether the importers used the correct

tariff classifications. Therefore, we questioned why the agency required the importers to provide product descriptions.

To expedite trade, the agency did not compare the goods with the information on the import form or on the invoice at the border. Goods were released at the border for delivery to their destinations. Within five days after release, the agency confirmed the amount of duties and taxes owed. We believe that this self-assessment system with little validation allowed some importers to be non-compliant with the import rules and regulations.

Importers are responsible for ensuring that the information provided is accurate, but they often use customs brokers to help them prepare import forms. We found that, despite known non-compliance with import rules, the agency did not monitor the performance of customs brokers. The agency has the power to suspend or cancel a broker's licence; however, it rarely suspended a licence because of concerns about a broker's overall performance.

[English]

We found that the Canada Border Services Agency and Global Affairs Canada didn't work together to adequately manage the limits on quota-controlled goods coming into Canada for the five imported goods we examined, which were dairy, chicken, turkey, egg products, and beef. The first four of these goods are covered under the supply management system.

Canada applies tariff rate quotas to control the volume of these goods, which can be imported into Canada at a lower rate of duty or duty-free. Once that volume has been imported, duties are applied at a higher rate.

In the audit, we noted a discrepancy between the volume authorized by Global Affairs Canada and the volume declared to the Canada Border Services Agency as eligible for a lower rate of duty. We observed that a significant volume of controlled goods entered Canada without the required permit. We estimated that in 2015, \$131 million worth of dairy, chicken, turkey, egg products, and beef were imported without a permit. If the appropriate duties had been applied to the excess volume, the government would have assessed \$168 million in additional customs duties.

• (1540)

We also found that the duties relief program, administered by the Canada Border Services Agency, could not always prevent the diversion of goods into the Canadian economy. The program allows importers to import goods without paying duties as long as they are used to add value to goods that are later exported.

In 2016, the agency completed six compliance verifications of high-risk importers under the duties relief program and found that none of these importers complied with the program's requirements. The agency later suspended the licences of these importers.

[Translation]

Finally, we examined the \$20 minimum value to import goods duty-free by mail or courier. This amount has not changed since 1992, but the volume and total value of incoming parcels have increased significantly. The agency did not have the staff to inspect all incoming parcels, which meant that duties and taxes were not always assessed when they should have been. The agency determined that administering customs duties on goods imported through the postal service and valued at less than \$200 resulted in a net cost to the government.

Overall, the Government of Canada assesses customs duties and controls goods coming into the country according to methods that are complex and difficult to administer. This means that the program operates differently in practice than on paper.

[English]

The Canada Border Services Agency, Global Affairs Canada, and the Department of Finance Canada have agreed to our recommendations.

Mr. Chair, this concludes my opening statement. We'd be pleased to answer any questions the committee may have.

Thank you.

The Chair: Thank you, sir, and thank you for the hard work you and your staff did. There are some revealing findings there. Hopefully we can get some action on those.

We're going to go right to questions, if you're ready. We'll try to keep dialogue with the MPs to five minutes.

We are going to start with the Conservatives. Mr. Carrie, you have the floor.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair.

I want to thank you and your staff, Mr. Ferguson, for being here.

In number 11, in your conclusion, you say, "Overall, the Government of Canada assesses customs duties and controls goods coming into the country according to methods that are complex and difficult to administer. This means that the program operates differently in practice than on paper."

I think the CBSA found that over 20% of the goods imported into Canada were misclassified and may not have paid their full duty. That seems really high. In your opinion, is that the result of people

intentionally misclassifying things, or is it honest confusion by importers with the classification system?

Mr. Michael Ferguson: Mr. Chair, obviously it's always difficult to precisely say how people are reacting, but I think in this case there is probably enough evidence to say that there are some importers who are using the rules to their best advantage.

That's why we also commented on the number of adjustments made after the fact. In many cases, importers have up to four years to go back and change what they originally declared as coming into the country, and there is quite a bit of that happening. We say in the report that, again, the Canada Border Services Agency recognizes that the longer an importer has to make that type of change, the more likely it is that the change really wasn't an appropriate one to make.

It's hard to say to what extent there may have been importers perhaps stretching the rules to the best of their advantage, but it's certainly safe to say that it does happen.

• (1545)

Mr. Colin Carrie: As you know, we've been looking at NAFTA and at trade deals. It's what we do here. I think everybody around the table would like to see more trade, better trade, more efficient trade, but of course that would include more efficiencies and better access, and things happening at the border.

In your report, you recommend that CBSA consider implementing "automated means to validate accounting declarations for quota-controlled goods to be charged customs duties at a lower rate".

What would be the advantage and disadvantage of automating the validation of these declarations? Are there ways we could use technology or types of automation to make things a bit more efficient and accurate?

Mr. Michael Ferguson: I think we talked about a lot of this in paragraphs 2.53 and 2.54. I believe that the issue was fundamentally that the permitted volumes that importers were allowed to bring in and the actual volumes that were brought in, those two pieces of information, were maintained in two different systems and in fact in two different organizations. There was nothing that was done to bring that information together to make sure that what came in under the permits for quota-controlled goods was within the total maximum volume that was allowed to come in.

What we ended up having to do in this case was go back to Stats Canada information to try to figure out what came in and to what extent it appeared to be above the permitted volumes, the authorized volumes. I think our point was they had these pieces of information, but they were maintaining the information in two different systems. Nobody was systematically comparing the two. At the end of the day we found out that \$131 million worth of goods came in that were not properly permitted or were above the volumes, and should have had the higher rates of duties applied to them but didn't.

Mr. Colin Carrie: How am I doing for time?

The Chair: You have a half minute left. Do you want a short snapper?

Mr. Colin Carrie: Yes.

I was watching your body language, Mr. Ferguson, and you had one hand here and one hand there. I was wondering if this is an example of the right hand not knowing what the left hand's doing in government.

I think everybody agreed with your recommendation. Do you think that they're going to be giving enough resources to CBSA to correct these problems?

Mr. Michael Ferguson: As per normal, CBSA has prepared an action plan, and I believe it has presented that action plan already to the public accounts committee, or sent it to the public accounts committee. They haven't yet appeared for a hearing, but they do have an action plan.

I believe many of the dates in their action plan are into 2018 and—are there some in 2017?

A voice: Yes.

Mr. Michael Ferguson: Okay.

There is an action plan. I think this committee might also be interested in looking at that action plan and looking at what they say they're going to do and when they're going to do it and make sure that the department is actually living up to that action plan.

The Chair: Thank you, sir.

We're going to move over to the Liberals now.

Mr. Fonseca, you have the floor.

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

Thank you, Mr. Ferguson and your team, for the report and the recommendations.

When we look at these current challenges and issues, I want to stick to looking at the efficiencies and where those can be brought in and how we overcome those.

We talk about the resources. Could you break that down? When we look at our IT infrastructure, is it a human resource gap that we have in terms of addressing these issues, or is it that we need more harmonization to build in those efficiencies, especially at our ground border?

Some of the companies that have come in and presented to us—Amazon, FedEx and others—talked about how difficult it is when they try to get across the border with the many line items that they have to sift through. It doesn't matter if it's footwear or apparel or food goods. Whatever it is, we have, as I see here, 7,400 tariff items, and most of the country's customs revenue is generated from 567 items. Is that not harmonized right now, especially with the United States, in terms of those tariff items, whatever the line item that they have to mark down on the form to be able to get that item across the border?

• (1550)

Mr. Richard Domingue (Principal, Office of the Auditor General): Thank you. Thank you, Mr. Chair.

There is some harmonization with the U.S. and with the WTO. For example, there are 3,493 items that are duty free because of WTO rules. There is harmonization, yes, with the U.S.

Mr. Peter Fonseca: The reason I bring it up is they bring it up often as an irritant, as a loss of productivity, in the sense that it is adding extra costs to the product because of the challenge of finding that line item and getting their customs brokers to go all through this. Has a discussion been had around getting customs brokers together from different countries, especially from our biggest importers or exporters, so that we can harmonize these line items?

Mr. Michael Ferguson: Probably the best way for me to answer that is by saying that when we do an audit we look at what the process in place is. We're not really looking at whether there should be more or fewer line items. That's the policy side of things. It's for the government to decide how they want to apply the whole tariff rate.

Our bigger issue is that a system exists on paper that says how tariffs are going to be applied, but then the organizations can't actually make sure that this system is working in practice. That's probably a significant irritant for Canadian businesses. They think they are working under one set of rules, but if that set of rules isn't actually applied the way it's written on paper, it causes them frustration.

As to the overall question of efficiency, we touched on it in a couple of places in the report. One was a case in which the agency, I believe, said that it costs them more to apply the \$20 threshold than they actually collect. I think that essentially is the case up to a threshold of \$200: it costs more to apply the rules than they collect. Now, that may be fine, but I think this is a piece of information that is useful in setting overall policy.

They have a place on the form for descriptions to be entered when something is coming into the country, but most of that information is not useful. We found, I think, 1.1 million lines for which they had multiple descriptions but only one classification code. They might have 50 items in their description, but only one classification code.

Then there was another large percentage of them in which all they put in the description was something like “kits”. You can't apply a classification code when all you're describing is “kits”. Why bother asking importers to fill in the description, then? It's not required, as I understand it, but it's still there, and importers are filling it in.

Canada Border Services Agency also identified that if they had more compliance officers, they could collect four to 10 times the salary of that officer in additional duties.

I think we touched, then, on some of the issues about efficiency, but our main message in the whole audit is to somehow try to get the system to work in practice the way it's supposed to work or is described to work on paper.

• (1555)

The Chair: Thank you, sir.

We are going to move over to the NDP now.

Ms. Ramsey, you have the floor.

Ms. Tracey Ramsey (Essex, NDP): This is so interesting, to be honest. We hear pieces of this in all of the trade agreements we're discussing, and certainly around NAFTA. We'll definitely keep an eye on that action plan that you were talking about at the public accounts committee.

Could you, though, speak to any of the particular staffing challenges CBSA highlighted to you during the reporting process?

Mr. Michael Ferguson: I think those were the only two they did actually highlight to us, one being that if they had more compliance officers they could collect more revenue, and the other being that it costs them more to collect the low-dollar-value duties on parcels coming through the mail.

Ms. Tracey Ramsey: The de minimis question is one that is coming up as well. It's obviously an ask that the U.S. has in NAFTA.

I wonder, though, whether any type of look has been taken at the amount we are losing in trying to collect the duties at the border against the jobs affected in the retail sector. We've heard from retailing and from chambers of commerce that they think there will be an impact from that de minimis shifting. It's not just the border snapshot, then; it's about the wider impact.

I want to ask you about the "misclassified" category. They are saying they believe that over the past 15 years, 20% of the goods imported into Canada have been misclassified. Can you talk to us a little about whether there are certain categories that are consistently misclassified and whether you have narrowed it down at all to any particular types of categories?

Mr. Michael Ferguson: We make that reference in paragraph 2.21 of the audit, which says:

Over the last 15 years, the Agency's compliance verifications on specific goods revealed that importers misclassified imported goods more than 20 percent of the time.

That's a long-term percentage.

Regarding particular types of goods, I don't think we have any information about whether some goods were more likely to be misclassified than others.

Ms. Tracey Ramsey: Okay. We certainly heard here about diafiltered milk. You mentioned the pizza kits and things like broiler chickens. Are you saying there wasn't any specific misclassification around those?

Mr. Michael Ferguson: Well, we certainly found some issues.

I think we mentioned the duties relief program, for example, and the fact that some goods were being imported and then some value-added was being put into the process in Canada. They were supposed to be exported again, but often products were getting diverted into the Canadian market. That was something that tended to happen, particularly with marinated chicken.

Other than that, we know there are problems as well with the diafiltered milk. I think part of the issue around diafiltered milk is knowing whether it's diafiltered milk or not when it shows up at the border, because how do you know what the protein percentage is in the product?

Certainly we did notice some of those issues. In terms of this misclassification issue, it wasn't broken down by type of product.

Ms. Tracey Ramsey: One of your recommendations was to improve the import forms. You talked about the inconsistencies in those forms. I wonder if you can speak a little further to the recommendations you made. How do you think that issue can be resolved?

Mr. Richard Domingue: Thank you, Mr. Chair.

One of the issues that the Auditor General just mentioned is the poor description on the form. We do question the need.... Even though it's not a formal requirement, many businesses spend time and effort trying to fill out that form properly. Meanwhile, another set of businesses basically put in whatever they want. It could be a part number, it could be sets, kits, whatever.

We suggested to CBSA that they should review that part of the form, because obviously it's not something that's useful to them. The description on the form cannot always be matched with the HS code. It means that when they do verification ex post, there's no value to the descriptive.

We did try, through text analysis, to match the descriptive with the HS code, and that's when we realized that it was often misdescribed. We had to basically abandon our objective, which was to try to see if the goods had been properly classified.

On the form side, as I mentioned earlier, importers have the ability to retroactively amend the form. This could be for up to four years. Under NAFTA, it's only one year. We were told by CBSA that the longer it takes to amend the form, the more likely it is that the amendment will be incorrect. That's one part of the problem associated with the amendment of the form. There's also the fact that it could allow importers to play with the float by underestimating the value of the goods shipped. On the last day, four years minus one day, they will submit an amendment to their import form. Then they owe money, but they had the money for four years in their pocket.

● (1600)

Ms. Tracey Ramsey: They kept it.

Mr. Richard Domingue: There are always those risks with the forms right now in the amendment process.

The Chair: Thank you, sir. Thank you, Ms. Ramsey.

We're going to move over Madam Lapointe.

[Translation]

Ms. Linda Lapointe (Rivière-des-Mille-Îles, Lib.): I would like to thank all the witnesses for being here.

The information you have provided today is very interesting.

Your report pertains to 2015. What period does the previous report on the agency cover? Do you have information about the previous report?

Mr. Philippe Le Goff (Director, Office of the Auditor General): The last time we focused on this part of the agency was in 2010.

Ms. Linda Lapointe: Okay.

From 2010 to 2015, have you seen an improvement or worsening of the problems you identified?

Mr. Philippe Le Goff: If memory serves me, there was next to no improvement in the number of elements classified correctly.

Ms. Linda Lapointe: So there was no improvement between 2010 and 2015.

You conducted the audits in 2010 and in 2015. In 2010, was the problem related to insufficient staff?

My colleague was wondering if the problem was the result of a lack of staff.

Mr. Philippe Le Goff: It is essentially a problem involving information and information management.

Ms. Linda Lapointe: You said the number of parcels being imported is increasing as a result of e-commerce. You talked about the \$20 minimum and said there is no charge at \$200. Yet people are calling for that amount to be increased to \$800.

You said the cost is nil at \$200, but if the agency hired one person, it would recoup four to six times their salary. In that case, should the \$20 minimum be maintained and more employees assigned to inspections?

Mr. Michael Ferguson: That is something different. Increasing the number of officers is one way of monitoring and evaluating the whole system. It is not just a parcels; duties also apply to other items. It would also be possible to increase duties based on further investigation of the merchandise.

Ms. Linda Lapointe: Okay.

That is interesting.

We did a study on spent hens in August 2016. In your 2015 report, you seemed to be saying there were a lot of problems with value added, primarily in the case of chicken. We were alerted to the problem at customs, namely, that it was difficult to distinguish the various products. A DNA test was even suggested.

Had you identified and quantified this problem?

Mr. Richard Domingue: We did not specifically audit spent hens in our work. After discussing it with the agency, we quickly realized that it was a problem. We were told that a DNA test could be done to differentiate real table chickens from spent hens, but we did not pursue that, in part because there was some doubt about the efficacy of the test.

Ms. Linda Lapointe: Okay.

You had already highlighted a problem, namely, that spent hens were being imported and then leaving the country after processing.

•(1605)

Mr. Richard Domingue: Yes, in our example, it was made into marinated chicken.

Ms. Linda Lapointe: Yes, because people thought we were receiving regular chicken and it was then leaving the country as marinated chicken.

Mr. Richard Domingue: Yes.

Ms. Linda Lapointe: The spent hens were less expensive than chicken when they entered the country, and they were leaving the country as improved chicken.

You are saying that all your recommendations will be implemented in the action plan in 2017-18.

Mr. Richard Domingue: It will essentially be in 2018.

Ms. Linda Lapointe: Okay.

Were your recommendations accepted on the whole?

Mr. Richard Domingue: The agency and the departments concerned accepted all of our recommendations.

Ms. Linda Lapointe: Okay.

Returning to the parcels that enter Canada, should there be more inspections to ensure that people are paying the appropriate duties?

Mr. Richard Domingue: The challenge is volume. There are hundreds of thousands of packages arriving, particularly at the postal processing plant in Vancouver. At certain times of the year, such as a few months before Christmas, the volume increases substantially. There are so many packages in Vancouver that those packages are sometimes sent by truck to the processing plant in Montreal. They are sorted in Montreal and then returned to the appropriate distribution centre in Canada.

There are so many parcels crossing the border, from Asia and China in particular, that is nearly impossible for the customs service to manage. Staff would have to be increased substantially. That is why we are talking about the \$200 minimum. The agency says it starts to recoup its costs on goods imported when their value exceeds \$200.

Ms. Linda Lapointe: Thank you very much.

That is very interesting.

[English]

The Chair: Thank you.

That ends the first round. I think we have enough time for another round.

We're going to start with the Liberals. Go ahead, Mr. Dhaliwal.

Mr. Sukh Dhaliwal (Surrey—Newton, Lib.): Thank you, Mr. Chair.

Thank you, Mr. Ferguson and associates.

The recommendation is that we should have more CBSA staff. I'm trying to understand. On the one hand we are saying that a wrong classification is causing all these issues of not collecting full duties. If we hire more CBSA officers, how would we be able to mitigate this problem?

Mr. Michael Ferguson: I want to be clear that we didn't make a recommendation to increase staff or resources. We referred to it in paragraph 2.42 of the audit. The agency estimated that for the 2015-16 fiscal year, each additional compliance officer could have identified unassessed customs duties, taxes, and interests totalling four to 11 times their individual salaries. What we are bringing to your attention is that the agency has done this calculation.

Again, we're not making a recommendation one way or another. What we are bringing forward is that given the way the system is described right now, given all of the requirements on the system and the resources that are in the system, that's not all lining up.

Right now the organizations involved in this area are not able to implement the system as it is. That may not be something that you can solve just by providing more resources. For example, as Mr. Domingue just said, there has been an increase in packages through the mail. Can that all really be managed, even with an increase in resources, if the threshold is kept at \$20? We don't know the answer to that question.

What we do know is that right now all the different components of the system are not lining up to make sure that the system works the way that it is intended to work on paper. I think that is really the struggle that the department has to deal with. What needs to happen to bring those two things into line, the resources and the requirements? Right now, the requirements are significantly more onerous on the department than they can actually meet. Somehow those two things need to come in line, and there are different ways of doing that.

Mr. Sukh Dhaliwal: Did they disclose how much we lose by the customers bringing in goods and not disclosing at the borders?

• (1610)

Mr. Michael Ferguson: No. In fact, even with the goods coming across the border by importers and even though the Canada Border Services Agency has done a number of inspections and identified things like misclassifications and that the misclassifications have resulted in an under-collection of duties, they themselves haven't done any estimate even of that information, of what the total quantum might be. They haven't taken the information from those more focused activities that indicated that they're not collecting all the revenue that they could collect. They haven't even taken that to extrapolate it, let alone some of those other more difficult things to extrapolate, such as people coming across the border with things.

Mr. Sukh Dhaliwal: It worries me more now when we see every day that people are ordering by the Internet. Amazon is shipping like crazy. You order something today and they ship tomorrow, because they have one-day delivery.

As Peter was asking, how can we manage or streamline this system with less workforce to achieve more?

Mr. Michael Ferguson: That is what the department needs to sort out in its analysis of what it can do. I think there is no question that the complexity of what they're trying to deal with has changed significantly in the last few years. They really have struggled to enforce all of the rules as they exist right now. It could be a resourcing issue, or it could be that there is some technology that could help, or maybe some of the rules are not enforceable the way that they exist currently. Maybe that needs to be looked at. I think of those components of the problem need to be analyzed.

Mr. Sukh Dhaliwal: Okay. Thank you.

The Chair: Mr. Dhaliwal, thank you. Your time's up, and we're going to move over to the Conservatives now.

Mr. Dreeshen, you have the floor.

Mr. Earl Dreeshen (Red Deer—Mountain View, CPC): Thank you very much, Mr. Chair. Mr. Ferguson, it's great to see you again.

Having been on public accounts for a number of years and having a chance to take a look at all this information over a long period, I'm happy to see that you're working in areas that are so important to our

nation's finances. Of course, these areas are especially important when we're talking about trade, as we are, and when we talk about how goods are moving across the border.

We're looking at this strictly from the Canadian border customs perspective and goods that are coming into Canada, but we also have to start looking on the trade side as to how things are moving in the other direction.

That's part of what was being discussed when we talked about the \$20 versus the \$800. You indicated that \$200 would perhaps be a break-even amount. Nobody's pinning anyone down as far as what the ultimate dollar figure should be, but I think it's important that it at least become part of our discussion.

Just going back to deal with what we were talking about, it was back in 2002 when it began to be noticed that 20% of these goods that are being imported were being misclassified. You also indicated in paragraph 2.21 that through misclassification, sometimes importers pay too little tax and sometimes they pay too much. It's a fact that you just don't have confidence that it's being tracked properly. That's really one of the key things.

I'm wondering if in the discussions there was consideration of how our system compares to the inspection of goods when they cross into the U.S. Did you get into any discussions with CBSA on the reciprocal treatment that the U.S. was giving to our goods?

Mr. Michael Ferguson: I'll start and then I'll turn it over to Mr. Domingue.

We have done an audit, not on how the U.S. treats Canadian goods going into the U.S. but on how Canada controls its exports at the border. We have looked at the export side of things from that point of view, but I'll ask Mr. Domingue if there was any conversation at all about how the U.S. treats Canadian imports coming into the U.S.

• (1615)

Mr. Richard Domingue: Thank you, Mr. Chair.

We did not look specifically at how the U.S. treats Canadian imports to the U.S., so we don't know exactly how or if things are better or worse over there.

Mr. Earl Dreeshen: That's fine. I'm just curious whether or not that had been part of the discussion.

On the duties relief program, you spoke about some high-risk importers. I'm wondering what sectors were primarily of concern to you and what your definition of a high-risk importer would be.

Mr. Michael Ferguson: Actually, in paragraph 2.56, we specifically state: "In 2016, the Agency completed six compliance verifications of Duties Relief Program participants that import supply-managed goods". In terms of identifying the importers who presented the highest risk to be investigated, that was something the agency did. They identified that this problem was most likely to be happening in the supply-managed goods. The one they particularly focused in on, for example, was the marinated chicken issue.

They looked at importers who are using this program, and probably across that program there are some importers they would consider to be at low risk of not using the program appropriately, and others who are higher risk. They focused their verification process on those they considered to be the higher-risk importers.

Mr. Earl Dreeshen: On the department's acceptance of your recommendations in various areas, I know these questions were asked: what would happen if we had more staff, and what would happen if we had more auditors to deal with this?

Of course, one of the issues right now is the massive change in disruptive technologies and things that are crossing borders. We start looking at vehicles that are moving across without having people in them. A lot of that is going to be the case.

Did they talk about having dollars—

The Chair: Sorry, Mr. Dreeshen, but I can't let you throw a question in there because your time's up.

Mr. Earl Dreeshen: I'm curious whether they might have enough money to deal with it, but that's fine. Thank you.

The Chair: I think there's time. Mr. Carrie might want to finish that thought when he comes up.

We're going to move over to the Liberals now. We have Mr. Peterson. Go ahead.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thank you, Mr. Chair. Thank you, gentlemen, for being here today. We appreciate your input.

Mr. Ferguson, you mentioned in your remarks that in 2015, 1,973 tariff items generated only \$26 million, less than 0.5% of duty revenues. What's the significance of that? Why did you feel it necessary to comment on that?

Mr. Michael Ferguson: Mr. Chair, that's in the section of the report that deals with what the Department of Finance does. We felt that the Department of Finance should be reviewing the whole tariff schedule to identify whether, in their analysis, it needed to be changed.

We started our analysis by looking at all of the different tariff lines to determine how many items are coming in, what's being collected, and what that shows. For the most part, we found that the Department of Finance was doing a pretty good job of analyzing things. There was one area where they wouldn't give us access to the information we asked for, and that caused us some concern. For the most part they would do their analysis when they were in negotiations to change something, and when they did that analysis, they did a reasonably good job.

However, we wanted to understand the tariff lines ourselves to know how many lines were generating revenue, which ones were generating the most revenue, and that type of thing. Part of it was to build our own knowledge. We put it in the report because we felt it was interesting information for Parliament to know.

• (1620)

Mr. Kyle Peterson: Conversely, three line items generate 57% of the duty revenue, it seems, through duties on apparel, footwear, and auto parts.

Mr. Michael Ferguson: Right. Again, it shows that while there are about 7,400 different tariff line items and while Canada collects \$5 billion in duties, when you look at all of the individual tariff items, you see that a very few tariff line items are responsible for a very large portion of the revenue. From that point of view, I think it's interesting to understand the effort required to enforce the rules. I think analysis based on which things are actually generating revenue would be interesting.

Mr. Kyle Peterson: Is it the implication, or the inference that can be drawn, that resources should be targeted on those three items that generate the most revenue?

Mr. Michael Ferguson: It would be a reasonable starting position to consider that if these three items are bringing in the most, then we should make sure we are collecting the right duties on those items, always remembering that part of the problem on duties is knowing what is coming across. It's easy to enforce a duty when you know that footwear's coming across the border and what type of footwear it is. When what's coming across the border is a kit, which is actually some type of footwear, but they've just called it a kit or something like that, that's really where it becomes more difficult to make sure the rules are being applied.

It's not so difficult to make sure the rules are being applied when everything is being properly coded and classified and paid. That's easy enough. The difficulty is going through all of the details to find the things that were actually shoes, but weren't called shoes, and then making sure that the duties apply.

Mr. Kyle Peterson: In my last half-minute here, I want to touch on the customs broker licensing system. It seems to me that your audit revealed some flaws in that system. It called into question even the licensing regime itself, and whether certain other penalties should apply. Do you have any general comments on the broker system?

Mr. Michael Ferguson: What I would say again is that the agency identified that over 15 years, roughly 20% of the items coming across the border were misclassified. We felt that this was information they should use to go back and assess the brokers' activities. Are some brokers doing better jobs than others? Why are some perhaps not doing as good a job as others?

We felt first of all, then, that they should use that type of information to do a periodic assessment of the brokers to see how well they are applying the rules. The other thing we noted was that the penalties are actually quite low; I think the average penalty was \$150. The penalties are whatever the penalties are, but whether there is actually much deterrent effect in a penalty that averages \$150 is the other thing that I think we said they should look at. Penalties presumably exist to be a deterrent. Are they deterring, and are they actually incenting the activity that you want, which is good management of the system?

Mr. Kyle Peterson: Thank you.

The Chair: We have time for one more on the roster.

Mr. Carrie, you're taking the spot.

Mr. Colin Carrie: Thank you. I will follow up on what my colleague was talking about.

Mr. Ferguson, you said that the program operates differently in practice from the way it's designed on paper. Some of the new disruptive technologies were mentioned. We could very soon be seeing trucks going across the border without drivers.

Looking ahead, does the department have the resources to look at this as an opportunity to reassess the way things are being done and maybe take advantage of some of the new technologies that are out there?

Mr. Michael Ferguson: Mr. Chair, it's really not something I can comment on; it wasn't part of the audit. The only place we even came close to that subject was on the issue of their world having changed a lot because of the cross-border mail business, the volume of packages coming across the border.

There's probably a significant risk to the organization that the world they operate in is changing quite a bit. Do they have the ability to keep up with it? I think that's a fair question for the department, but it wasn't something we dealt with in the audit.

• (1625)

Mr. Colin Carrie: I think you mentioned that it might be a good idea to get CBSA and Global Affairs here, just to follow up on their action plans. I think that's really good advice. I think they were all agreed on the recommendations in the report. I'm wondering how confident you are that CBSA and Global Affairs will follow through on the recommendations that they have agreed with.

For example, in the February 2016 report called "Controlling Exports at the Border", CBSA and Global Affairs noted some recommendations on the high-risk exports, which they said they would implement by the end of 2016. Do you know whether they did so? Also, does your office have the opportunity to review compliance with recommendations?

Mr. Michael Ferguson: We have the ability to go back to do another audit in the same area. It's what we refer to as a follow-up audit. We'll go back to look at the recommendations we've made and see whether the departments have implemented them. We haven't done that yet on the audit on controlling exports at the border. We don't do it on all audits.

The problem is that it takes some time. We need to give the departments two to three years to implement the recommendations; then we have to start and plan another audit, execute the audit, and report it. By the time we've gone through that, another 18 months have passed. It's often four to five years at the soonest before we come back with another audit.

The department has put in place an action plan. I'm just looking at the action plan they presented to the public accounts committee. There are a number of things noted here for September 2018, June 2018, December 2019, March 2019; that's on the audit on customs duties. Those dates are in the future.

Part of what the public accounts committee and this committee can do is have the department in to ask whether they are on track, such that when a follow-up audit is done later on sometime in the future, it will show that they have dealt with all of the issues they

said they were going to deal with. That would really be a useful part of the process, making sure that the departments understand that there is a real expectation that they will actually do something to deal with the recommendations.

We're not asking them necessarily to implement our recommendations exactly as we've put them. What we're asking them to do is show that whatever changes or improvements they make will mean they won't have the same problem in the future. There are many ways this can be done. I think it is useful for this committee to play a role in making sure that the department implements this action plan to ensure that they improve on the issues we identified.

Mr. Colin Carrie: Good.

How am I doing?

The Chair: There's not much time left.

Mr. Colin Carrie: I have a quick one.

You touched on supply-managed goods escaping tariffs. In paragraph 2.54 of the report it is noted that supply-managed farm goods—milk, eggs, and poultry—were imported without duty on \$131 million worth of products, but the section didn't cite a specific cause, and the recommendation was a little bit vague.

Did your office or CBSA ever establish the cause of these goods entering Canada duty-free?

Mr. Michael Ferguson: The fundamental cause, I guess, was that they didn't have the appropriate permit. The volume that was brought in was above the low-tariff volume, but the two organizations didn't make sure that what was imported did not actually exceed the volumes that were permitted to be imported. Again, it was an issue of not identifying that more was coming in than should have been coming in under a permit, and because more was coming in, that should have had the higher rate of tariff. They weren't monitoring that.

As I said, I think that earlier on, part of that problem was that the information existed in two different systems in two different departments, and they weren't periodically bringing that information together to identify that this was happening. I think that's something that they very much need to do.

Mr. Colin Carrie: Thank you very much.

The Chair: Thank you, Mr. Carrie. We had good questions and good dialogue with MPs. That wraps up our questioning.

Again, thank you very much, Mr. Ferguson, for coming and bringing your people. Thank you for your hard work. Speaking on behalf of the committee, we will question the department on their action plan and see how things are progressing. They come here periodically, so that will be one of the questions we'll ask.

We're going to suspend for a minute, and then we have some future business to discuss in camera.

Thank you.

[*Proceedings continue in camera*]

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