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## **Standing Committee on International Trade**

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**EVIDENCE**

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**Chair**

**The Honourable Mark Eyking**



## Standing Committee on International Trade

Monday, December 4, 2017

• (1530)

[English]

**The Vice-Chair (Mr. Dean Allison (Niagara West, CPC)):** I call the meeting to order.

Good afternoon, everyone. Pursuant to Standing Order 108(2), we will commence our briefing on the ongoing negotiations of the North American Free Trade Agreement.

We'll get started very shortly, but before we do I want to welcome our witnesses here today and thank them both for being here. I know that you have been very busy, so the fact that you're taking some time out of your busy schedules to be here and just give us an update is greatly appreciated.

From the Department of Foreign Affairs, Trade and Development, I have Dany Carriere, who is the director of trade negotiations for North America, and Steve Verheul, who's the assistant deputy minister of trade policy and negotiations. Welcome, and it's good to have you here.

As I think you are no strangers to how committee works, we'll start with your opening statements, and then we'll move around the room over the next couple of hours, asking questions back and forth. It is not televised live, but there is a camera from Global TV, which will share the proceedings with other networks after we're done.

I'm going to turn the floor over to you, Mr. Verheul, to start with your opening remarks, and then we'll have some questions from our members.

**Mr. Steve Verheul (Assistant Deputy Minister, Trade Policy and Negotiations, Department of Foreign Affairs, Trade and Development):** Thank you very much. Good afternoon, everyone, and thank you, Mr. Chair.

I'm Steve Verheul, Canada's chief negotiator for the NAFTA negotiations, and, as mentioned, assistant deputy minister of the trade policy and negotiations branch at Global Affairs Canada. As you also mentioned, I'm joined today by Ms. Dany Carriere, who's the NAFTA chief policy coordinator.

Thank you for the invitation to provide the committee with an update on the NAFTA negotiations. I would like to take this opportunity to acknowledge the work of the committee in their hearings on NAFTA, including cross-country and international consultations. The feedback those reports provide is quite valuable, so thank you.

This is my first appearance before this committee since the negotiations were launched in August, so I will focus my opening remarks on a quick overview of the negotiating rounds we have had so far, followed by a description of where talks currently stand.

To start with, as you all know, negotiations to modernize NAFTA were officially launched by the three NAFTA ministers on August 16, 2017, in Washington, D.C. To date, five rounds of negotiations have been held in rapid succession. Each round brings together nearly 30 negotiating tables. They cut across all of traditional trade agreement topics such as national treatment and market access for goods, investment, cross-border trade in services, and government procurement, but also include newer modern trade topics, such as digital trade, good regulatory practices, and small and medium-sized enterprises.

Nearly two months ago, Canada hosted round 3 in Ottawa. Almost 600 national delegates in addition to nearly 300 journalists, 100 stakeholders, and 75 representatives from provinces and territories were present for the Ottawa round.

Following the first three rounds, the NAFTA partners were in a position to announce the conclusion of the competition policy and small and medium-sized enterprises chapters. At the end of round 4, as they did for rounds 2 and 3, ministers met to take stock of the negotiations. They decided, given the scope and complexities of the negotiations, to extend the period of time between rounds to allow more technical work and domestic consultations. Ministers also reaffirmed the goal of reaching an agreement in a reasonable amount of time.

Most recently, Mexico hosted round 5 in Mexico City, where it was announced that the sixth round of negotiations will take place from January 23 to January 28 in 2018 in Montreal, Canada, but before that, negotiators will continue their work in Washington, D. C., from December 11 to December 15.

As you know, Canada's objectives for these negotiations have been based on extensive ongoing consultations with Canadians, including businesses, civil society, labour unions, indigenous peoples, and academics. In total, the Government of Canada has met with over 900 Canadian stakeholders, including local communities from across the country, and we've been continuing to meet stakeholders alongside the NAFTA talks themselves and between rounds. In addition, the government has received over 44,000 written submissions through the *Canada Gazette* process, the NAFTA consultation website, and direct emails to the NAFTA consultations team.

These extensive consultations provide valuable opportunities for Canadians representing many of the diverse regions and populations of our society to give their perspectives on Canada's negotiating priorities.

In addition, to ensure Canada's positions are well informed, we've established a wide-reaching consultation mechanism that includes a steering committee and specific sectoral groups. The sector-specific groups include agriculture, automotive and auto parts, civil society, culture, energy, infrastructure and government procurement, labour, metals, services, and transportation.

We also work very closely with our provincial and territorial colleagues, who travel to the negotiation sites, where they are provided with regular updates on the talks.

Overall, Canada's goal is to make an already good agreement more modern and more progressive. We are seeking to ensure that NAFTA can fully address the challenges of the 21st century. That means cutting red tape, harmonizing regulations where it makes sense, and making the flow of goods and services more efficient and effective for our businesses.

We also believe that NAFTA needs to be more progressive and inclusive. Canada's is seeking to integrate into NAFTA strong labour and environment chapters, reinforce the right of governments to regulate in the public interest, strengthen collaboration on activities to promote gender equality through a trade and gender chapter, and increase participation of our indigenous peoples in North American trade.

• (1535)

To that end, in round 5 in Mexico, Canada tabled its proposed trade and indigenous peoples chapter. The chapter aims to provide greater opportunities for indigenous peoples to take advantage of the economic opportunities of a modernized NAFTA.

At this juncture, the NAFTA negotiations are unfolding on two tracks. The first is a traditional track where it will be possible to see real improvements to NAFTA in a number of areas, including telecommunications, good regulatory practices, customs and trade facilitation, sanitary and phytosanitary measures, sectoral annexes, financial services, anti-corruption, technical barriers to trade, and many others. These are the kinds of issues to which our stakeholders have attached the greatest importance. It is a message we keep hearing regularly during our consultations.

As in all negotiations, there are difficult areas where Canada will have different objectives and approaches from its trading partner. This is true for the NAFTA as well. This includes the value of binational panels for anti-dumping and countervailing duties, or chapter 19: the U.S. is seeking its elimination, while Canada is seeking to improve upon it. That said, difficult areas were anticipated.

Where things get really difficult is on the extreme proposals tabled by the U.S. at rounds 3 and 4. These proposals fall in the second track. They include a rules-of-origin package for the automotive sector, a government procurement dollar-for-dollar proposal, an unconventional approach to dispute settlement, and a sunset clause.

On rules of origin for autos, the U.S. is proposing a regional value content requirement of 85%, a 50% U.S. content requirement, and tracing of all inputs. This proposal is wholly unworkable and would not only be damaging to the Canadian and Mexican auto sectors but to the U.S. auto sector as well. Both Canada and Mexico have highlighted the negative impacts of the U.S. proposal for the U.S. and for North America more broadly.

In regard to government procurement, the U.S. has tabled a dollar-for-dollar proposal that would virtually eliminate Canadian access to the U.S. procurement market under NAFTA. Canada has rejected the dollar-for-dollar proposal as completely unworkable, and we will not engage on the basis of that kind of approach.

On dispute settlement, the U.S. proposal is an attempt by the U.S. to return to a pre-WTO era in which the biggest economies win over smaller economies. Enforceable trade commitments are essential and represent a critical part of any trade agreement, including NAFTA. Canada will not accept an outcome that does not respect this fundamental concept of effective enforcement of legal obligations.

Regarding the sunset clause, the U.S. is proposing that the agreement expire every five years unless the parties agree to extend it. Canada's position is that this would create an unstable business environment and hamper foreign investment in North America. We continue to oppose this proposal, as well as the other extreme proposals.

The U.S. has also proposed the complete elimination of Canadian tariffs on dairy, poultry, and eggs, without suggesting the elimination of their own. In some cases they have even greater protections on products such as dairy, sugar, sugar cane products, and others. This proposal is also unacceptable.

Even in the face of these extreme proposals, Canada remains committed to modernizing and improving NAFTA, and we will continue to engage constructively with Mexico and with the U.S. with the aim of reaching mutually beneficial outcomes for a modern NAFTA that will continue to serve our exporters for decades to come.

Let me be clear: while we will continue to engage constructively and bring suggestions and new ideas to the table, we will not accept U.S. proposals that would fundamentally weaken the benefits of NAFTA for Canada and undermine the competitiveness of the North American market in relation to the rest of the world. Canadian negotiators are working hard to continue putting together high-quality proposals in advance of the Washington intersessional period, and we are looking forward to hosting our Mexican and U.S. colleagues in Montreal for round 6.

Thank you, and I look forward to taking your questions.

• (1540)

**The Vice-Chair (Mr. Dean Allison):** Thank you very much, Mr. Verheul.

We're going to start with the opposition and Mr. Colin Carrie.

Go ahead, sir. You have five minutes.

**Mr. Colin Carrie (Oshawa, CPC):** Thank you very much, Mr. Chair, and I thank the witnesses for being here.

First of all, I'd like to say I had a great week last week with some of my colleagues around the table. We had a chance to meet with some congressmen and senators. I have to tell you that the view about Canada was very positive overall, but there is this uncertainty.

Could you help clarify something that wasn't able to be clarified down there?

If the U.S. were to withdraw from NAFTA, would the Canada-U.S. trade agreement, which was suspended but not terminated, take effect? What exactly would occur?

**Mr. Steve Verheul:** If the U.S. did withdraw from NAFTA, then the Canada-U.S. free trade agreement—which, as you mentioned, is currently under suspension—would come into effect. It may take a presidential proclamation to initiate that process on the U.S. side. We would probably both have to make regulatory changes to comply with that agreement, as things have changed over the years, but it is true that if the U.S. withdrew, the currently suspended bilateral agreement between us and the U.S. would come back into force.

**Mr. Colin Carrie:** I have another question I'd like to get your input on.

I come from Oshawa, and the automotive sector is hugely important there. You mentioned in your opening statements about the rules of origin for automotive and the requirement of 85% and 50% U.S. content. If that were brought into effect, how would that affect Canadian and U.S. producers for automobiles and auto parts? Would this encourage automotive manufacturers to maybe buy these products offshore? Would we be losing jobs here? Can you comment on that?

**Mr. Steve Verheul:** There are certainly two elements to that aspect.

The current regional value content is 62.5%, which is the highest in any free trade agreement around the world already. If it were to be moved to 85%, our view is that auto manufacturers would not be able to access enough of their products and inputs from North America to meet that level of regional value content. We think that many manufacturers would be motivated to then move their operations offshore and sell into the U.S. market, which has only a 2.5% tariff on cars going into the U.S. market. That would likely be far cheaper than having to make the adjustments necessary to try to meet a regional value content of 85%. I think that would certainly cause significant damage to the industry in North America overall, including in the U.S.

The U.S. domestic content provision that they've proposed, which is a minimum of 50% U.S. content, would tend to attract production in the U.S. at the expense of Canada and Mexico because that would represent the largest share of content. Many suppliers would move to the U.S. to ensure they could make that minimum 50%. Meeting that 50% would be the first priority of any manufacturer or any parts manufacturer.

We have said that this part of the proposal is entirely unacceptable. Any U.S.-specific content requirement is unacceptable. We don't see these kinds of things in any trade agreements, and we would certainly continue to hold that position.

● (1545)

**Mr. Colin Carrie:** Speaking to the auto sector, over the last few years it seems our supply chains have been very well integrated and are very efficient. If the United States continued on this road, what would it do to the overall competitiveness, not only here in Canada but in North America?

**Mr. Steve Verheul:** I think that's probably one of our biggest concerns. That type of U.S. proposal, even if modified somewhat, would render the North American market significantly less competitive in relation to the rest of the world. North America obviously competes with the European Union and production from Asia, and we would be at a significant disadvantage if we were to lower the competitiveness of the North American region.

We do feel that some of the U.S. proposals go exactly in the direction of worsening our competitiveness, which is why it is a priority for us to ensure that we do advance our competitiveness, not reduce it. That's why we're opposing some of these U.S. proposals.

**The Vice-Chair (Mr. Dean Allison):** Thank you.

Thank you, Mr. Carrie.

We're going to move over to Ms. Ludwig for five minutes.

**Ms. Karen Ludwig (New Brunswick Southwest, Lib.):** Thank you very much.

I want to continue with my colleague's line of questioning.

Some of us on this committee were in Washington last week doing outreach through the Canada-United States Inter-Parliamentary Group, the friendship group. I'm wondering if we could get your perspective on how important the outreach work is and if you're hearing in Washington and Mexico the significance of... the extent that we are making a difference on the ground.

**Mr. Steve Verheul:** It's absolutely essential. That kind of outreach work is what will make the difference between whether we can advance in the right direction in this negotiation or not, because we are getting these kinds of proposals from the U.S. administration and we're seeing a lot of opposition to many of them from U.S. industry, from U.S. states, from others. I think we need to make sure that other U.S. interlocutors are aware of the kinds of proposals the U.S. has put on the table and their implications.

The only way we can do that is by as much outreach as we can manage, so that people are aware of what is happening at the negotiating table. It's entirely invaluable.

**Ms. Karen Ludwig:** Thank you.

Continuing with that, Mr. Verheul, looking at the year ahead, how often do you think members of Parliament and senators should be down there?

**Mr. Steve Verheul:** From my perspective, the most important element is timing. It's about when to go. The U.S. Congress has been preoccupied with tax reform of late, which is quite a distraction from the trade issues, and I think that at least in the minds of many in Congress, there has been a sense that the trade issues are being set aside while tax reform is being sorted out. Once there is some resolution to that one way or the other, that will be a key time to have a lot of that advocacy work taking place in the U.S.

**Ms. Karen Ludwig:** Great. Thank you.

Some of the discussions we had last week in Washington included concerns and values that we share, such as national security and energy security. We certainly share a common border. I would agree with you one hundred per cent. Certainly the message we got from the meetings was.... It was an "aha" moment for some. Some members and senators didn't realize the extent of the dependence on trade with Canada and the potential implications for some disruption to their individual states and jobs.

My next question is about what NAFTA has meant to our economy and middle-class Canadians in terms of jobs over the past 23 years. What might some of the implications be if it had to be renegotiated every five years?

**Mr. Steve Verheul:** We've certainly seen trade expand considerably over the course of the years since NAFTA has come into effect. I think it has quadrupled with the U.S., and certainly it has increased by significant margins with Mexico as well, particularly in the agriculture and agrifood sector. It has certainly allowed our economies to expand and jobs to be created to a significant degree. If we move to a less efficient North American market with barriers between us and the U.S. and barriers between Mexico and the U.S., we will become a less efficient region. We will become less productive, and our economic interests will certainly suffer as a result.

• (1550)

**Ms. Karen Ludwig:** Thank you.

I represent New Brunswick Southwest, where we have five international border crossings, and certainly with any disruption in timing and efficiency across that border we see the outcomes fairly quickly, even just with long lineups.

In your negotiations, how important have the changes in technology been to looking forward to clearance and pre-clearance opportunities?

**Mr. Steve Verheul:** One of the messages we have received probably more than any other from stakeholders is about smoothing the process for getting goods and services and people back and forth across the border. NAFTA was originally negotiated 23 years ago, and the world has changed quite a bit. There are opportunities to simplify those processes, make a lot of them automatic, make a lot of them electronic. The current NAFTA approaches in some cases still rely on exchanges of paper documents.

There's a lot of scope, we feel, for making progress on that front that will make a real difference to our stakeholders—our business community and others involved in issues across the border. From our perspective, that's the real value we can get out of this negotiation.

**Ms. Karen Ludwig:** Thanks very much.

**The Vice-Chair (Mr. Dean Allison):** Thank you. That's all the time we have.

We're going to move to Ms. Ramsey for five minutes.

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

Thank you to the witnesses for being here today and for all the hard work that I know you're doing in trying to negotiate on our behalf.

If there's one word that sums up the dominating theme both here and in the U.S. around NAFTA, it's "uncertainty". I'm wondering if there have been any impact assessments or analysis done by the government, should the U.S. indeed try to leave NAFTA.

**Mr. Steve Verheul:** We certainly have been doing our due diligence in thinking about what would happen if the U.S. were to withdraw from NAFTA, and certainly we're not looking to that kind of result. We are hoping to convince the U.S. to stay within NAFTA, but clearly, if they do choose to withdraw, we would have to evaluate domestic policy reactions on our side. We would certainly have a sense of the basis of tariffs that could be put back in place and which sectors would be affected more than others.

We have been looking primarily at a sector-by-sector approach on where the impact would be.

**Ms. Tracey Ramsey:** Okay.

I don't think it will come as a surprise to you, Mr. Verheul, that I'll ask you about labour. I'll ask about where we are on labour and if we have been able to reach any common ground either with Mexico or with the U.S. in terms of right-to-work states in the U.S., ILO conventions, and wages. We saw the minimum wage go up by 10% in Mexico.

I'm wondering if you can give us an update on where we're at in terms of labour, because I believe it's one of the largest hurdles that we have to overcome with our partners.

**Mr. Steve Verheul:** Yes, I would fully agree with that assessment.

In the negotiations, we did put forward a very ambitious proposal on labour. We worked closely with the labour unions on that proposal as we developed it. We are coming to the table with an approach that does rely heavily on the International Labour Organization core conventions, of which Canada has ratified all eight. Mexico has ratified seven and is working on the eighth. The U.S. has ratified two, so they are well behind. Probably not surprisingly, the U.S. is resisting that proposal.

On the right-to-work elements that are in our proposal, the U.S. is also resisting that proposal, but we have been working quite closely with Mexico. Mexico is sympathetic to many of the proposals in our draft chapter, although certainly not all. Even the U.S. has been supportive of some elements of the more traditional parts of our proposal.

At this point, we certainly have the firm intention to continue to push our proposal. We see no reason to back down from it. We think these issues are essential and we will continue to push forward at the negotiating table.

• (1555)

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

On ISDS, chapter 11 specifically has been a huge issue, as I think it is across the globe, really, in terms of trade agreements. On chapter 11 of NAFTA, globally we have been sued the greatest number of times around any ISDS proposal, I believe, so it's quite a serious issue to us here at home in terms of our sovereignty. There's this opt-in provision that the U.S. has put on the table. Can you speak to our position on the opt-in or on chapter 11?

**Mr. Steve Verheul:** Yes.

First of all, with respect to what Canada has brought to the table, we have put forward an initial proposal that is drawn in large part from the outcome in CETA on investment dispute resolution, but have faced resistance for the proposal from Mexico and from the U.S.

The U.S., as you mentioned, has put forward a proposal that would allow parties to either opt in or opt out of investor-state dispute settlement. At the table, the U.S. promptly said they would opt out. Both Canada and Mexico have said that if this were to be the case, if the U.S. is going to opt out, Canada would opt out as well, and Mexico said they also would opt out. If the U.S. proposal were to be adopted—at this point, we are still opposing it—there would be no ISDS between NAFTA members.

**Ms. Tracey Ramsey:** Okay.

Is there any attempt to remove the energy proportionality clause?

**Mr. Steve Verheul:** We are working on an energy chapter. Again, the U.S. is somewhat resistant to having an energy chapter, but we're including provisions that we're putting forward to try to modernize that chapter in particular.

The proportionality clause is one that also will exist in the chapter on national treatment and market access for goods. The current energy chapter in NAFTA simply replicates something that's already found in another chapter. We're also looking at bringing Mexico into the energy chapter, because they were not part of it in the original NAFTA when it was negotiated.

**The Vice-Chair (Mr. Dean Allison):** Thank you very much.

We're going to move over to Mr. Dhaliwal.

You have five minutes, sir, to help finish off the round.

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

Welcome to the panel members.

I come from beautiful British Columbia. In my riding of Surrey—Newton, and in British Columbia generally, over 95% are small businesses. They always ask questions about NAFTA when I'm out in the community.

The exact question they ask me is basically whether I can highlight the process that will protect and promote trade opportunities within NAFTA for small and medium-sized businesses. Could you elaborate on that, please?

**Mr. Steve Verheul:** Yes. This is something we put a lot of effort into in the negotiations. The first chapter we completed was the chapter on small and medium-sized enterprises. That chapter is oriented primarily toward finding ways to allow small and medium-

sized enterprises to take advantage of the opportunities in the free trade agreement. It includes elements of co-operation, elements of facilitation for those enterprises to participate more effectively.

We've also taken the approach in many of the other areas of the negotiations to simplify, as I mentioned earlier, a lot of the processes at the border. One of the complaints we've frequently heard from small and medium-sized enterprises is that the process is complicated. They don't necessarily want to hire some kind of broker or customs adviser to help them through this. We think that automatic processes at the border and electronic forms that are simplified and easy to manage would remove a significant burden from small and medium-sized enterprises.

We've addressed that area, and we've also been looking to negotiate other provisions that would simplify and make more efficient the efforts of small and medium-sized enterprises in trying to sell their products across the border.

**Mr. Sukh Dhaliwal:** Then so far what you've done.... Is there agreement among the U.S.A., Mexico, and Canada on those issues that you mentioned?

• (1600)

**Mr. Steve Verheul:** We have already agreed on a chapter on small and medium-sized business enterprises, and we have had a lot of positive reaction on those other areas as well. I think it's one of those areas where we do have very common objectives across the three parties. We all have small businesses and we're all trying to find ways to allow them to participate more effectively in international trade.

**Mr. Sukh Dhaliwal:** Okay.

On the other hand, you mentioned that the U.S.A. is proposing an agreement that expires every five years. Coming from British Columbia, I can tell you that the perfect example is softwood lumber duties, right? Because it expires so often, every 10 years we are in the hole and getting back to the table. It's not very productive.

Is there any way that this softwood lumber deal can be part and parcel of NAFTA on a long-term basis, instead of for that small period of time after which we have to negotiate, going from agreement to agreement?

**Mr. Steve Verheul:** At this point, the two issues are being dealt with separately. The NAFTA negotiations are one area, and the softwood lumber negotiations—at this point, at least—are being dealt with separately. That's the kind of path that's been followed over the last large number of years, as you're aware.

That, I'm afraid, will continue to be a difficult issue. I think it's probably unlikely that we'll be able to bring the softwood lumber issue into the NAFTA negotiations and effectively resolve it. However, many of the issues that softwood lumber is facing are issues that we're also trying to deal with in the negotiations.

I'll just make a brief comment on the sunset clause. It's a rather large concern to us because we don't think we can have an effective agreement when there's the possibility that it will expire every five years. When we talk to Canadian business, when we talk to groups like auto manufacturers, they plan on a fairly long horizon, and they make large investments on the basis of that horizon. If it's uncertain that an agreement will survive and you have that problem every five years, it's going to put a significant chill on investment, on planning, and on the strength of the agreement.

After all, free trade agreements are intended to provide security of access over the long term, and sunseting goes absolutely in the wrong direction.

**Mr. Sukh Dhaliwal:** Thank you.

**The Vice-Chair (Mr. Dean Allison):** That ends the first round.

We're going to start the second round with Ms. Lapointe.

[Translation]

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

Gentlemen, thank you for being here. This update is very important.

When negotiations began, the constituents in my riding of Rivière-des-Mille-Îles were worried. But as the negotiations move forward, my constituents are realizing that you really care about progressive Canadian values, and that comforts them. Negotiations aren't done yet, but the businesses in my riding are finding that things are progressing well in this regard.

You said the following in your presentation:

In addition, to ensure Canada's positions are well-informed, we have established a wide-reaching consultation mechanism that includes a steering committee, and specific sectoral groups.

You spoke in particular about agriculture, automotive, civil society and culture.

With respect to culture, you may know that here, in Canada, thousands of jobs are connected to culture. Could you tell me a little bit about that?

[English]

**Mr. Steve Verheul:** Culture is certainly an important issue in the negotiations for us. It is in every negotiation that we participate in and it's of particular importance with respect to any negotiation with the U.S.

We have put forward a proposal for a general exemption for culture in the NAFTA negotiations and we've sought to improve upon the existing general exception for culture in NAFTA. So far, the U.S. has not reacted positively to that proposal, but we have made it clear that protecting culture, cultural programs, and the cultural industries in Canada is a priority for Canada and we will not compromise that priority.

[Translation]

**Ms. Linda Lapointe:** Thank you. I appreciate your comments.

Along the same lines, I would like to know how we could ensure that official languages are included in the modernization of NAFTA.

• (1605)

[English]

**Mr. Steve Verheul:** There would be nothing in the agreement, if we manage to finalize it, that would pose any kind of threat to our official languages or any kind of effect on it at all. When we get to a final agreement, assuming that we do, it will be equally legally valid in English and in French. We insist on that in all of our agreements. This would be no different. It should have no effect on our official languages policy or issues in any way.

[Translation]

**Ms. Linda Lapointe:** As you know, it's tied to culture. That's why I spoke to you about it.

**Mr. Steve Verheul:** Absolutely.

**Ms. Linda Lapointe:** My colleagues have talked about the provision that the Americans would like to see renegotiated every five years. You told my colleague that, in the automotive sector, investment forecasts are made over a number of years.

You said earlier that we have to compete globally. There is Europe and Asia. But the fact that over five years we could lose the manufacturing sector could be one argument.

I would like to hear your comments on that.

[English]

**Mr. Steve Verheul:** Yes. That's exactly the kind of argument we've been making at the table. Whether it's the sunset clause or their specific proposal on autos, the U.S. proposals would render the North American market much less competitive than it is now in relation to the rest of the world.

At this particular point in time, when we see China and other countries increasing their competitiveness and increasing their exports around the world, we feel that this is exactly the wrong time to weaken the North American market. We should be strengthening it and making it more efficient and more productive. We feel that many of the U.S. proposals are going in the opposite direction.

[Translation]

**Ms. Linda Lapointe:** Thank you very much.

[English]

**The Vice-Chair (Mr. Dean Allison):** Thank you very much.

We're now going to move back over to the Conservatives. We'll have Mr. Dreesen for five minutes.

**Mr. Earl Dreesen (Red Deer—Mountain View, CPC):** Thank you very much, Mr. Chair.

I want to thank both of our witnesses for being here today.

I know there's been good discussion on the issues such as labour and environment and whatnot, but when we've done our negotiations through CETA and all of the others, we've always had that as part of the discussion on where we are going. I see it as a continuation of some of the things that are there, and, of course, this is the reason that it was so important for us to get CETA settled.



Right now our discussions are taking place on NAFTA, but we've also seen the U.S. pull out of TPP. We see ourselves trying to look at where we might fit in there, and we have some issues that have come up there, so I think we will just continue to talk, as Canadians, as we always have, just to make sure that areas of human rights and so on are respected. I think that's very important.

I'll revert back to the agriculture side. One thing that was mentioned was the phytosanitary requirements. We have some issues and concerns with Mexico in the potato industry. I know that our seed potato exports to Mexico at one point were significant, and now they have declined. With issues such as the potato cyst nematodes and so on, we have concerns there. We also have extra costs that Canadians have in order to satisfy conditions. These are these non-tariff trade barriers that exist in that area.

I'm wondering if you can fill us in on that side of the agriculture discussions to see what we might be able to expect, and if there's anything else we should be doing when we are talking to our Mexican and our American counterparts.

**Mr. Steve Verheul:** This has been something we've been spending a lot of time on. I'll just say as an aside that I worked on the Mexico seed potato issue probably more than 20 years ago, so it's an issue that's been long-standing and an ongoing challenge at many points in time.

What we're trying to do in the negotiations, and in particular in the sanitary and phytosanitary chapter, is to get to a process whereby we don't make our inspection systems identical, because we think that's probably unrealistic at the end of the day, but we agree on a more outcomes-based type of approach. Although we might be using slightly different approaches to how we may certify a product or how we may do inspections on a product, we recognize that effectively the result is the same. If we can recognize each other's systems as doing as good a job as our own systems are doing, then there's no need to have those kinds of problems, because we would accept each other's systems.

That approach is intended to get exactly at issues like that seed potato issue. If we do our inspections on seed potatoes in Canada, as we do, then under this kind of proposal Mexico would accept those inspections as valid for allowing entry into their market. We're trying to move proposals like that forward so that we can eliminate, or at least significantly reduce, those kinds of problems that we've been experiencing.

• (1610)

**Mr. Earl Dreeshen:** Do we also have those kinds of arrangements on CETA, then? We were having the same discussions, and that's been part of it. I'm just wondering if there are parts that we can look at in the CETA that we can use to emphasize when we are speaking to our counterparts in the other two countries.

**Mr. Steve Verheul:** Yes, that's right. We do have a number of provisions in CETA that are aimed squarely at those kinds of non-tariff barriers that you've mentioned. We have mutual recognition of processes, mutual recognition of standards, and those are the kinds of issues that increasingly are really at the core of what we're trying to do in free trade negotiations.

Tariffs are not the issue they once were many years ago. It's the non-tariff barriers that are the issue, so we've been focusing much

more on trying to resolve those and we've been putting a lot more effort in those than we have in previous agreements. We are trying to bring some of those ideas into the NAFTA discussions. We have received some generally positive reactions from the U.S. and from Mexico, so we think we can make some concrete progress on practical areas just like that.

**Mr. Earl Dreeshen:** Thank you.

**The Vice-Chair (Mr. Dean Allison):** Thank you, Mr. Dreeshen.

We're going to move over to Mr. Fonseca, please, for five minutes.

**Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.):** Thank you, Chair, and thank you, Mr. Verheul and Ms. Carriere.

I hear from my constituents in Mississauga East, and often they talk about NAFTA and mix that in with our economy. They're very optimistic. They're very positive about our job growth over the last two years. This last month we had almost 80,000 jobs created here in Canada. They like the way the economy is going and how unemployment is coming down. We're seeing the same types of numbers in the United States. Their economy is doing better, and unemployment has dropped significantly.

You're saying to do your homework before you come to the table. I want to thank you for the work you've done, the amount of work that was put together through your team, through the government, working together with the opposition, with everybody really in lockstep to be able to send a message down to the United States.

I was just googling "NAFTA" right now. CBS is talking about how the National Association for Business Economics is saying not to hurt NAFTA, to do no harm. It's talking about improving NAFTA with modernization. Three hours ago CNBC was talking about the benefits of NAFTA again, saying that the best way for the U.S. to deliver on putting America first is actually to put North America first.

Therefore, it's working. By having the teams go down to the United States and share the message, it's coming out. These are large news organizations that are putting out the right message. I'm sure it's filtering its way up to the President and the executive level.

I want to ask you about all the stakeholders. You had 900 meetings. How do you disseminate information to them as negotiations are ongoing and continue that loop of consultation? How do you do that through your team?

**Mr. Steve Verheul:** It takes a significant amount of our time, but we felt from the beginning that unless we entirely understood the interests of our stakeholders, we were not going to be very effective at the table. We have to understand at a fine level of detail what they are looking for, what they think can help them in the negotiations, and then bring that to the table. That only works effectively if we can keep them up to speed with what's happening at the negotiating table and go back to them to check whether we're still on the right track, whether they still see the right progress being made.

After every negotiating round, we do debriefs with all our consultation groups to inform them of what happened during the round. We talk to them about what we expect coming up in the following round and get their advice and input on their reaction to how things are going and whether they're satisfied with that progress. If they have comments to add or suggestions to make, we take those on board and refine our negotiating strategy from there.

• (1615)

**Mr. Peter Fonseca:** In your comments you mentioned that both Canada and Mexico have highlighted negative impacts of the U.S. proposal for the U.S. and North America more broadly. This speaks to the rules of origin for autos. Is that what would have happened in that case?

If at the table the United States is asking for 50% U.S. content and 85% North American content, would you then go out to our stakeholders and put it in front of them so they could run through all the different negative impacts as well as what might be positive in terms of what's being put on the table?

**Mr. Steve Verheul:** Yes, that's exactly right. We met with our auto manufacturers and our auto parts suppliers. We also met with representatives of U.S. auto manufacturers, U.S. auto parts suppliers, the U.S. Chamber of Commerce, and U.S. unions. All of them were as opposed to the U.S. proposal as we were.

**Mr. Peter Fonseca:** My colleague Ms. Ludwig talked about crossing the border and how many border crossings she has in her riding. How are we looking at modernizing that border crossing, at harmonizing some of the irritants we hear about all the time?

We were down in Milwaukee at the Johnson Controls company, and they were talking about driverless vehicles coming across the border and how that would work in terms of our border crossings.

**Mr. Steve Verheul:** It takes a number of different approaches. We have approaches that deal with issues right at the border, with customs and trade facilitation, to ensure that getting through customs and claiming preferences under NAFTA and all of those processes are as simple and automatic as possible, so that when people arrive at the border they're not delayed, that the processes have already been taken care of and they can get right through without delay.

A lot of what we're also doing takes place well away from the border, having to do with regulatory co-operation, or regulatory harmonization in some cases, so that there isn't a difference between the kinds of requirements for a product in the U.S., for example, and in Canada. Again, that reduces any delays moving products back and forth across the border.

**Mr. Peter Fonseca:** Thank you.

**The Vice-Chair (Mr. Dean Allison):** Thank you.

I'll ask a couple of questions now, if you don't mind.

You talked about the extreme proposals in rounds 3 and 4. It would appear to me that we're moving to a head. There's a good chance that this deal could be cancelled, even though none of us want this to happen.

First, what do you think the U.S. needs as a win? These are obviously starting positions, but is there any flexibility? Second,

what kind of contingency plans has Global Affairs prepared for the government in terms of options?

**Mr. Steve Verheul:** Well, I think this is one of the issues we're struggling with: what does the U.S. need for a win?

I think we can certainly bring a lot of creativity to the table in developing outcomes that we think could certainly be characterized as a U.S. win or as a North American win. We could do that in sectors like the automotive sector. I think we could come up with other proposals on what they're trying to get at with the sunset clause and dispute settlement. We have made proposals, and I think we could address a lot of those issues.

Our concern is that what the U.S. has described as their overriding objective—this has come from some members of the administration—is that they want to take benefits enjoyed by Canada and by Mexico, reduce those, and draw those back to the U.S. so that the U.S. benefits more and Canada and Mexico benefit less. We feel that the only way this negotiation will succeed is if it's a win-win-win negotiation, so that all three parties benefit and we make North America a more competitive market.

Going in the direction of drawing back benefits to the U.S. and weakening the benefits for the other partners is a recipe for making North America less competitive. We certainly won't accept outcomes like that for Canada.

On your second question, with respect to contingency plans, we are starting to do quite a bit of thinking about what would happen under different scenarios. If the U.S. does initiate the process for withdrawing from NAFTA, it triggers a six-month period before they can actually formally withdraw, so it's a question of whether they take that first step of the six-month notice. I think we'll see a rather strong reaction from U.S. industry and from others in the U.S. to try to convince the U.S. not to take the final step after six months. We would be working very closely with U.S. stakeholders and U.S. representatives to try to prevent that second step from being taken.

If the worst-case outcome does arise and the U.S. does formally withdraw from NAFTA, we would have a number of contingency plans in place to make sure that the impact is as modest as it can possibly be. We do have a number of ideas in that regard, but I would point out that there would also be a significant impact on the U.S. and, again, a significant impact on North American competitiveness.

• (1620)

**The Vice-Chair (Mr. Dean Allison):** Absolutely.

Mr. Fonseca was talking about the harmonization of pre-clearance and things like that. Do you see things the trusted traveller program or NEXUS being in jeopardy as it relates to a NAFTA disagreement? That was part of the integration in terms of just trying to get across the borders. The U.S. doesn't like the word "thinning" the borders, but we talk about pre-clearance and things like that. Do you see programs like trusted traveller and NEXUS being in jeopardy should they move down the road...?

Their objective is to receive the benefits to what happens in the U.S., right? They're not concerned only about whether we get across the border in a timely fashion or a speedy fashion.

I would love your thoughts on that as well.

**Mr. Steve Verheul:** Those kinds of programs are not actually part of the NAFTA, but we would hope that the U.S. would recognize the efficiencies to both parties with those kinds of programs. We certainly have a lot of Americans travelling to Canada for business purposes or other purposes as well. It only makes sense for it to take place as efficiently as possible.

We will continue to make that effort to convince the U.S. Hopefully, they will recognize that it is far better if we're working together than at cross-purposes.

**The Vice-Chair (Mr. Dean Allison):** Thank you very much.

I'll turn it over to Ms. Ramsey for three minutes.

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

I represent Essex in southwestern Ontario, certainly the auto capital of Canada. We know that we've lost 44,000 auto jobs under the period of NAFTA. We spoke about labour and my colleagues talked about the rules of origin. I want to ask you about traceability. Can you provide us with some clarity on what's on the table in terms of auto traceability?

**Mr. Steve Verheul:** The U.S. has proposed that all products in the production of an automobile be subject to tracing. Under the current NAFTA, there was a list of products that are subject to tracing, and the others are not subject to it. Subjecting all products to tracing would increase the costs to auto manufacturers considerably, because documentation would have to be provided at every stage of the production process, and it's not clear from the U.S. proposal how far that would go back in terms of the origin of any kinds of products that would be used in the assembly of an automobile.

We think the proposal as it stands is entirely unworkable. We will be talking to the U.S. further about the whole tracing idea. Manufacturers, both in Canada and the U.S., have made it clear that they also think that particular proposal is unworkable. I think it will have to be significantly modified before it can become a realistic consideration.

**Ms. Tracey Ramsey:** My next question is about supply management. We know that the U.S. is asking for 5% access per year, up to a 10-year window for supply management being gone in Canada. Can you tell me if there's any move towards expanding that market access?

**Mr. Steve Verheul:** Towards expanding the market access?

**Ms. Tracey Ramsey:** Right. Where is Canada on the 5% per year?

• (1625)

**Mr. Steve Verheul:** We have rejected that proposal entirely. We certainly would not be surprised to see the U.S. asking for increased access to our dairy, poultry, and egg market, since that's a traditional request of theirs, but to ask for the complete elimination of our entire protection of that market—

**Ms. Tracey Ramsey:** Are you rejecting all access? You're saying zero access. You're not going to increase access at all.

**Mr. Steve Verheul:** We are rejecting the U.S. proposal that has been put on the table.

**Ms. Tracey Ramsey:** All right.

My next question is about people who live and work on both sides of the border and the expansion of the visas that are extended to a lot of folks in my region who live in my riding and work in the U.S. Can you speak to whether there's been any movement on that chapter's being expanded?

**Mr. Steve Verheul:** We have had a lot of discussion on that chapter, the temporary entry chapter. We have made the argument—and Mexico has been very supportive of our arguments on this issue—that we should be modernizing the chapter. Many of the professions that have been listed in the original NAFTA are now out of date. There are new professions that have emerged over the past 20 years that should be added. We've been making that pitch to the U.S., and Mexico has as well.

One challenge on the U.S. side is that there is often a confusion between those types of provisions allowing for temporary entry and movement and labour mobility on the one hand, and immigration on the other. We are trying to make it clear to the U.S. that this has nothing to do with immigration. It does not lead to immigration. It has no relationship to immigration. This is simply about good business practices. We continue to make that case. The U.S. still needs to be convinced somewhat further of the value of this particular chapter, but I think we're making some headway.

**The Vice-Chair (Mr. Dean Allison):** Thank you very much.

We're going to turn it over to Mr. Peterson for five minutes.

**Mr. Kyle Peterson (Newmarket—Aurora, Lib.):** Thank you, Mr. Chair. You're doing a great job of chairing this meeting. It's your first time since we've been here, so that's great. I heard great things about you. It's nice to see them come to fruition here.

Thank you for being with us again, Mr. Verheul. It's very much appreciated, as always. It's always great when we can tap into your expertise and your experience, and it does help us to do our job as a committee. I think it helps us as parliamentarians. It's great that Canadians get some insight into what's going on, because there are very few Canadians, in my assessment, who aren't impacted by NAFTA in one regard or another. This is important work that we're doing. Not to put more pressure on you than you already have, but it's great that we get to discuss this situation in an open forum such as this.

I want to hit on a couple of issues that have already been touched upon, but maybe we can dig a little bit deeper. I'm going to start with the ISDS, the dispute mechanism.

My friend Ms. Ramsey, from the NDP, mentioned a little bit about chapter 11. I want to focus on chapter 19, because it's almost the mirror image. In my understanding, or at least it's the impression or the perception of it, is that in the U.S., they want chapter 19 to be gone. My understanding is also that we've rejected that proposal. Is there a counter-proposal? Is there a dispute mechanism that will satisfy all three parties that is somewhere in between what might exist now and perhaps what we see in CETA and other, more progressive, trade deals?

**Mr. Steve Verheul:** There are different types of dispute settlement in NAFTA. You mentioned chapter 19, which relates to trade remedies, anti-dumping, and countervailing duties. There's also the state-to-state dispute settlement process under chapter 20, and there's an investor state dispute settlement process under chapter 11.

With respect to chapter 19, the proposal we have put on the table is not simply to preserve chapter 19 as it is; it's to modify chapter 19 to improve it, to make it more efficient, to make it more effective, to provide some comfort with respect to some of the U.S. concerns and ensure that it remains an effective instrument going forward.

We have outlined in our proposal specific elements to improve chapter 19. We think it is fundamental, given the record of the past. We have taken chapter 19 cases on 20 occasions. The U.S. has been required to go back and change its practices on 13 of those occasions. It has been an effective instrument for us, and I think it's a basic kind of element that we need in the agreement to ensure fairness.

**Mr. Kyle Peterson:** Thank you for that.

Just because my time is limited, I want to switch gears from ISDS and speak a little about automotive again—not surprisingly, because I'm from the riding of Newmarket—Aurora and we have a large auto parts manufacturer headquartered in my riding, Magna International. On this concept of traceability, I think you rightly characterized the industry seeing it as unworkable, but that's industry on both sides of the border, is it not?

In my mind, there's a bit of a dilemma or a conundrum with your American counterparts in that if they're pushing for a component of the deal that their own industry doesn't necessarily support, without telling too many tales out of school, how is this impacting your ability to negotiate for the interests of Canadians when perhaps it's in the interest of all parties at the same time?

• (1630)

**Mr. Steve Verheul:** It is a challenge—and, frankly, not one we're really used to—when industry in the other party's backyard is criticizing the proposal. As well, auto manufacturers, auto parts manufacturers, and the labour unions in the U.S. have all been opposing the U.S. proposal.

We have been working closely with all of those groups in the U.S. to try to get the message across. At the last negotiating round, we spent a considerable amount of time on a presentation explaining why this proposal would be bad for the U.S. and cause a significant negative impact on U.S. interests. We do have the view that this proposal has not been subject to a lot of analysis or evaluation on the U.S. side. We think it was put on the table without a lot of that kind of analysis, and we have been trying to initiate a more in-depth discussion with our U.S. counterparts to talk about each of the

individual items of their proposal in more depth, to explain why they won't work, and to offer alternatives that would help to improve the current situation in the auto sector rather than make it worse.

**Mr. Kyle Peterson:** Thank you for that.

**The Vice-Chair (Mr. Dean Allison):** We're out of time.

I think we have time for another round. We're going to start with Mr. Carrie and Mr. Dreeschen.

**Mr. Colin Carrie:** I think I'm going to split the time with Earl.

I want to talk about jobs again, particularly in the auto sector, since I come from Oshawa.

We've heard a lot of rhetoric, with some people saying that NAFTA is the worst trade agreement ever and we have to get rid of it, but according to our own Minister of Foreign Affairs, thanks to NAFTA, Canada's economy has grown 2.5% larger. I've heard in my own community that it's because of NAFTA that we lost all those automotive jobs. Then on the other side of it I hear people say, "No, it wasn't; those jobs were already leaving." They say that production and innovation are the major reasons some of these jobs were lost, and they didn't necessarily go to Mexico because of that and would have gone to low-labour jurisdictions anyway.

It is an opinion question, and I was wondering if you could comment on it.

Also, if the U.S. does withdraw from NAFTA, what sectors of Canada's economy would have the largest production losses, in your opinion?

**Mr. Steve Verheul:** With respect to the auto sector under NAFTA, over the years I don't think there's any denying that we have seen an increase in jobs in Mexico and that we haven't seen those kinds of increases in Canada. The U.S. hasn't seen those kinds of increases, although they too have seen increases, and U.S. employment in the auto sector has been up 6% a year on average over the past decade, so it's not as if they're not making gains. Investments in Canada have continued to increase over time as well.

I think there are two issues here. First is the issue of competitiveness within the North American market. Most auto markets around the world do have a low-cost supplier. In North America, that tends to be Mexico; in Europe, it tends to be the eastern European countries to some degree. Similarly, in Asia they have lower-cost suppliers.

Second, certainly we don't share the view that NAFTA has caused all the job losses that have occurred in the auto sector. We think technology advances, in particular automation, have been the reason for many of those job losses, and economies continue to evolve. In the auto sector that occurs as well.

I think that when we're looking at this aspect, we need to look at it from a very practical point of view: how can we improve the creation of jobs, how do we get into more high-tech elements of the auto sector, how do we advance our interests when it comes to future technology that's going to be used in the auto sector? That will create more high-value jobs, and that's where we're looking to make improvements.

•(1635)

**Mr. Colin Carrie:** Which sectors would lose, though?

**Mr. Steve Verheul:** I think that if the U.S. were to withdraw from NAFTA, then you can easily look at the areas of high tariffs, which could be reimposed—not necessarily, but could be reimposed—against Canada. We do have high tariffs into the U.S. in areas such as footwear, textiles, and apparel. The auto tariff is not very large, which is of some comfort. In most of our natural resource areas, the tariffs are quite low.

That is a very quick generalization of the outcomes.

**Mr. Colin Carrie:** Thank you.

**The Vice-Chair (Mr. Dean Allison):** You have a minute and a half left, Earl.

**Mr. Earl Dreeshen:** Thank you very much, Mr. Chair.

I wanted to talk about the e-commerce chapter and the digitized world that we're going to be seeing. I think that was one of the questions Mr. Fonseca mentioned. It looks as if the USTR wants to secure commitments not to impose customs duties on digital products and to ensure NAFTA countries don't impose measures that restrict cross-border data flows or require the use or installation of local computing facilities.

When I was with the industry committee earlier in the spring, we were in Washington and we listened in on Senate hearings for rural broadband. There were discussions about coverage and all these other types of things associated with it. Of course, the question was about autonomous vehicles. The problem, of course, is where is this data going as you cross the border, like the roaming you have right now on the cellphone. How do you manage to keep all that going and still keep trade going?

I'm wondering if any of that has been included in the discussions that you've had. Also, could you update us on where you see the e-commerce file going?

**Mr. Steve Verheul:** We have been making some fairly quick advances in the digital trade chapter. It's called "electronic commerce" in previous agreements, but it's being called "digital trade" in the NAFTA renegotiation.

We covered many of the issues that you've mentioned, such as agreement not to impose customs duties on issues related to digital trade. We are including provisions such as online consumer protection to ensure that is provided for, and we also have provisions to provide personal information protection, which we feel is essential in this kind of trade. As well, our position is that we want to protect net neutrality when it comes to digital trade.

One of the outstanding issues remains a proposal put forward by the U.S. to provide a safe harbour for Internet computer service providers. In Canada we do not have that kind of protection from

civil liability for those providers, and we think that's a domestic policy issue, that it's an issue for the courts rather than an issue for trade agreements. That's one of the differences we have with the U.S. at this point.

**The Vice-Chair (Mr. Dean Allison):** We're going to turn it over to General Leslie for five minutes.

Go ahead, please.

[*Translation*]

**Hon. Andrew Leslie (Orléans, Lib.):** On behalf of Canada, I would like to congratulate you on your work, Mr. Verheul. I think I can speak for everyone here, in a non-partisan way. You are doing excellent work. We are really proud of your efforts, yours and those of the teams who work for you. Thank you again.

Still, I would like to suggest a small change. On several occasions, we have heard about the relationship between Canada and the United States. But while we share the longest and safest border in the world with our American friends and allies, we also engaged in these negotiations with a third NAFTA partner, Mexico, of course. We had the opportunity to have witnesses appear before this committee representing Mexican companies and interests.

Based on your experience, could you tell us how Canada-Mexico relations are and your relationship with your Mexican counterpart at the bargaining table?

Could you also elaborate on the rallying points between Canada and Mexico?

[*English*]

**Mr. Steve Verheul:** Thank you. The relationship between the Mexican and Canadian negotiating teams and between me and my Mexican counterpart is very strong. I think our strongest point in common is that we are both looking at this negotiation from the same perspective: we want to improve NAFTA. We are looking for outcomes that will benefit all three parties, and we are concerned about proposals that would go in the other direction, particularly some of the U.S. extreme proposals that are intended to focus benefits in the U.S. and not in the other parties.

We have been working closely with Mexico on virtually all issues. We're not on the same page necessarily on all aspects of all issues, but they have been working very closely with us on issues such as energy. We've been working together on an energy chapter that we could put forward. They have been working closely with us on many of the practical areas, such as customs and trade facilitation, regulatory co-operation, and good regulatory practices. These are the basic issues that make a real difference to stakeholders on both sides.

They've agreed with us and are supporting us where they can on labour, but have difficulties in some other areas. We have discussions bilaterally with them quite frequently about the state of the negotiations and we work jointly where we can on common proposals or common approaches to the negotiations.

•(1640)

[Translation]

**Hon. Andrew Leslie:** Thank you.

I would also like to know what opportunities are available to Canada for the NAFTA negotiations with respect to the development of trade and investment relations with Mexico.

Based on the information you have obtained over the last four or five months, could you tell us what major issues and what opportunities that represents?

[English]

**Mr. Steve Verheul:** Well, I think we do have real opportunities to further advance our relationship under NAFTA with Mexico, and we do have a commitment that if the U.S. were to withdraw from NAFTA, we would maintain the NAFTA between Canada and Mexico.

We see significant opportunities in the agriculture and agrifood sector with Mexico. Mexico has significantly increased as an important partner in agriculture for us since before NAFTA came into effect. I think we export something like \$4 billion worth of products to Mexico now in that area. We have interests in other natural resource-related sectors as well. We have interests that we can expand in many other areas, and we're working to do that. I think this whole experience has also strengthened the relationship between Canada and Mexico, which can also lead to further interest in each other's markets and the development of each other's markets. That's been a positive development as well.

**Hon. Andrew Leslie:** Thank you.

Thank you, Mr. Chair.

**The Vice-Chair (Mr. Dean Allison):** Mr. Masse, welcome to the committee. You are going to take the next five minutes. It's all yours.

**Mr. Brian Masse (Windsor West, NDP):** Great. Thank you, Mr. Chair. Thank you for having me and thanks for your work.

I'm going to return to auto, and I'm sorry to have missed some of that. We've slipped considerably in auto manufacturing and assembly. I come from a place where we no longer have General Motors, for example. Ford is not what it used to be, and Fiat now has Chrysler after Chrysler went through several different purchases over the years, so, our status in terms of assembly and manufacturing has certainly diminished.

Has there been any discussion with the United States and their representatives? I've been in Washington several times. They weren't even aware that Canada in the past had the Auto Pact. Is there any discussion going on regarding the repercussions of the United States in their position on auto, given that we did have a favoured trading status at one point? NAFTA killed that, because it was challenged under WTO. Given the change being suggested by the President, what is Canada's position with regard to restrengthening auto if the current footprint that President Trump is arguing for is successful or the negotiations don't take place? What is Canada's backup for that?

**Mr. Steve Verheul:** Well, certainly at the negotiating table we have been spending a fair amount of time on reacting to the U.S. proposals, which, as I've mentioned, would cause significant negative effects. We're looking for impacts that would provide

benefits to all three parties, including, obviously, our strongest interest, which is with respect to Canada. If we can pursue outcomes that can improve that situation, I think we can improve the situation in Canada, so we're working in that direction.

We think that if the U.S. withdraws from NAFTA, then obviously we will need to have significant bilateral discussions on the auto sector in any kind of scenario, but our main concern at the moment is that the U.S. is seeking to draw more production of both autos and auto parts back to the U.S. Our focus is on preventing that kind of proposal from getting through.

•(1645)

**Mr. Brian Masse:** Has there been at least any acknowledgement? This has been an amazing age of industrial development in the automotive industry, not only in terms of the materials but in the ways they're produced and, on top of that, technology, yet Canada has been left in the shadows. The vast majority of new plants—in fact, almost all the new plants in North America—have gone to Mexico or to U.S. states that have intervened with massive subsidization to gain a foothold in that industry.

Has there been at least an acknowledgement that the trading practices and basically the deal itself under NAFTA have diminished Canada's signature auto industry? We actually were second in the world in automotive assembly at one point, and now we're eighth and sometimes ninth, depending upon the month of production.

Is there at least any type of recognition that obviously we've paid a high price? Every relationship in terms of trade is give and take in a series of things, but I would argue that one of the highest prices we paid was in the value-added automotive industry, for all those different reasons I've mentioned.

**Mr. Steve Verheul:** Well, we do have the view that the prospects for the auto sector in Canada still remain quite positive. We are exporting a lot more autos to the U.S. than we import from the U.S. Eighty-five per cent of our exports go to the U.S., so it's a major market for us, but we strongly feel there is potential to do much better. If we can address some of the concerns that we've been trying to address with respect to the movement of parts and autos back and forth across the border, we think we can create an environment that will attract even further investment to Canada.

We're also doing that with the negotiation of other agreements, such as the CETA. We have access for further production to go off to the European Union, which could also position us as a hub between the EU and the U.S. in that kind of production.

It's partly in the NAFTA negotiations that we're pursuing these issues, and it's partly bilaterally with the U.S. that we're having these discussions. It partly relates to our other trading initiatives as well.

**Mr. Brian Masse:** How much time do I have?

**The Vice-Chair (Mr. Dean Allison):** You have 30 seconds.

**Mr. Brian Masse:** In that context, has there been any discussion about the U.S. states using massive subsidization—different from the federal level—to acquire investment? Has that come up?

**Mr. Steve Verheul:** We have had that discussion at the table. We've also had discussions about the U.S. right-to-work states, where we feel that there is an unfair advantage being provided and that those tend to be the states that are trying to attract investment by offering lower labour standards.

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

**The Vice-Chair (Mr. Dean Allison):** We're going to move it over to you, Ms. Ludwig. You have five minutes.

**Ms. Karen Ludwig:** Thank you very much for your presentation today.

Some of the businesses I speak with talk about uncertainty. For any of us around this room who have been involved directly with domestic or international business, one of the surefire things we need to have to succeed is a level of certainty.

Suppose you were talking to a Canadian business person today. Let's say you were talking to the owner of a company in my riding, and he or she is looking at where to invest. Do they grow their business? Maybe they're looking at succession planning. When they're looking out at the next year ahead and wondering what to do, what advice would you give them?

**Mr. Steve Verheul:** Well, I think there's no denying that we are in a period of uncertainty with respect to the U.S. in particular and their approach to the NAFTA negotiations. I'm not sure that there's any escaping some level of uncertainty, both with where the negotiation might be going and with respect to some of its ideas that this administration is putting forward in.

I don't think we're in a position to provide concrete assurances when it comes to NAFTA at this point, unfortunately. We can only assure people that we're negotiating in Canada's interests as strongly as we can and that we're very aware of the impacts of uncertainty.

**Ms. Karen Ludwig:** Thank you.

Often we hear about Buy American. Based on your conversations, is there an opportunity for a "Buy North American" brand and to have North American products, as we've talked about around this room? Our supply chain is so integrated that we build things together. We all value national security. We value more efficient, smarter border crossings. What about the opportunities to focus on branding North America?

• (1650)

**Mr. Steve Verheul:** That is something we have been pursuing for some time in various fora. Even before this NAFTA renegotiation began, we were trying to advance that proposal in various other discussions that we've had with the U.S. on government procurement initiatives, particularly their Buy American proposals. We have not had much success in convincing the U.S. to move away from "Buy American" to "Buy North American", although, as you point out, we think it would be a far more efficient and effective approach that would provide greater benefits to both sides.

**Ms. Karen Ludwig:** Thank you.

My next question is about analysis. You spoke, Mr. Verheul, about some analysis that may not have been done on the U.S. side. What analysis has the Canadian government done on the potential impact on the stock market if we did have a modernized NAFTA? What's the potential impact on jobs?

We know from the numbers that nine million Americans depend on direct trade with Canada for their jobs, and we're looking at 14 million North American jobs that depend on trade within our region. What are some of the opportunities, or has there been any analysis done to strengthen the job market in terms of numbers and our competitiveness?

**Mr. Steve Verheul:** In some ways it's difficult to provide a lot of specifics for that kind of analysis.

Clearly, if the U.S. did withdraw from NAFTA, Canada and the U.S. would probably continue to be each other's largest trading partner, just because of the fundamental economics around that. In all likelihood that trade would become more expensive. If the U.S. did withdraw from NAFTA and started to reimpose some tariffs against imports coming from Canada, then we would anticipate some adjustment in currencies to reflect those additional costs. Certainly we'd be looking at domestic policies to ensure that our industries would remain competitive.

I think assessing an impact in the absence of knowing what measures may be taken or what some of the unpredictable factors might be is very difficult as a definitive prediction.

**Ms. Karen Ludwig:** Thank you.

Do I have more time?

**The Vice-Chair (Mr. Dean Allison):** You have another 30 seconds.

**Ms. Karen Ludwig:** Great.

One thing we heard last week from the senators and the members of Congress was that during the presidential campaign, both candidates campaigned anti-NAFTA, so certainly that's work that needs to be done. They had recommended to us to look possibly at an education campaign. Would you suggest that's a good idea, but on our side of the border as well?

**Mr. Steve Verheul:** Yes, I would say so, because I think over the last 23 years we've come to accept NAFTA as a given and we haven't really had a lot of common discussion about the impacts or the importance of NAFTA. I think that in many ways it's been taken for granted that we have generally free access to each other's market and a free flow of goods and services moving back and forth, as well as investment.

I think an education campaign needs to happen primarily in the U.S. because I think that's where the greatest misunderstanding of the agreement and its impacts exist. However, without a doubt it needs to take place in Canada as well. I think the most important part is to demonstrate that with a renegotiation of this type, we can take steps to improve it, to make it a more progressive agreement and make it an agreement that will benefit a wider range of citizens and population. That's what we should be focusing on, not proposals that would benefit the U.S. at the expense of the other two partners.

**Ms. Karen Ludwig:** Thank you very much.

**The Vice-Chair (Mr. Dean Allison):** Thank you, Ms. Ludwig.

We're now going to go to Madame Lapointe for five minutes.

[Translation]

**Ms. Linda Lapointe:** We talked about technology earlier. Of course, this has changed the world in recent years, and the automotive sector has been affected quite significantly.

My colleague spoke about the chapter and the provisions dealing with e-commerce and the protection of personal information. That did not exist in 1994.

Now that we want to modernize the North American Free Trade Agreement, I would like you to tell us a little more about e-commerce.

What have you heard about it? You say you received 44,000 briefs. Have people expressed their points of view on this?

•(1655)

[English]

**Mr. Steve Verheul:** Yes. There are various elements we would like to modernize in NAFTA. One of them at the top of the list is certainly electronic commerce, which did not, to all intents and purposes, exist at the time NAFTA was first negotiated. We need to bring those newer issues related to advancements in technology into the discussion to ensure we have clear rules and a clear understanding of the treatment that's going to be provided to that area of business.

That's what we're trying to do with the digital trade chapter. That's what we're trying to do with other chapters, such as telecommunications, which has also shown a lot of advancement over the years. There are a lot of new ideas in other areas as well, even the traditional areas where we can bring newer and much more modern approaches to the table. That's the real benefit we can get out of this negotiation.

[Translation]

**Ms. Linda Lapointe:** Thank you.

Earlier, in your presentation, you said that the provinces and territories were consulted. As you know, I'm from Quebec, and Quebec is very active. We welcomed Mr. Bachand, the lead negotiator, to the committee.

How could the provinces help you further in future negotiations? I'm emphasizing that the next negotiations will take place in Montreal.

[English]

**Mr. Steve Verheul:** Yes. We've been working very closely with the representatives from Quebec, in particular Monsieur Bachand. I meet with him regularly. I meet with the Quebec delegation regularly, along with other provinces and territories as well. That will obviously be a particular priority when we're in Montreal, because the concerns Quebec has brought to the table are a key part of our negotiating objectives overall, and we need to show some clear advancements in those areas.

[Translation]

**Ms. Linda Lapointe:** Thank you very much.

That will be all from me.

[English]

**The Vice-Chair (Mr. Dean Allison):** Go ahead, Mr. Carrie.

**Mr. Colin Carrie:** Thank you very much, Mr. Chair.

As Ms. Ludwig and Mr. Masse mentioned, we were in the States last week. One of the themes we heard over and over again was basically "do no harm". We heard that over and over again from the auto sector and the agrifood sector, but we also heard it from security.

There's an issue I'm trying to get my head around, and maybe you can help me out with it. When you talk to the Americans about security versus trade, it seems their perspective is they put security first, then trade. There seems to be a perception that Canada puts trade first, and then security.

When you're looking at NAFTA and at North America, with NAFTA we have better cybersecurity, better food security, better energy security, and better defence security for North America. I'm trying to think, what's in North America's...? What's in the best interest of the U.S., Canada, and Mexico?

I had a gentleman who is involved in the security sector. He said that theoretically you could have less trade with the U.S., and then Canada would have to look to other markets. I know the PM is in China now, so taking that example, if you have a weakness of Canadian enterprises, they are more susceptible to a takeover. That may be a cause for concern with state-owned Chinese enterprises. I asked a couple of the congressmen whether it was in their best interest to have state-owned Chinese enterprises on their northern border, as a hypothetical situation, and I don't think they had even thought about security.

My question to you—and again it's an opinion question—is this: is it in the United States' best interest, from a security perspective, to withdraw from NAFTA? Maybe you could thematically talk about cybersecurity, food, energy, and defence. Where's the win?

**Mr. Steve Verheul:** We would certainly argue that there is no win if the U.S. were to withdraw from NAFTA in any of those areas.

There was a lot of trade in the agriculture sector in particular. You mentioned food security. We obviously don't produce the full range of food products within Canada. We need countries like the U.S. and Mexico to import some products from. It's not that different for the Mexicans or the U.S. either. Just as Canada and Mexico are the U.S.'s largest export markets for food products, these are our largest markets as well. Certainly the U.S. is. When it comes to food security and cybersecurity, there's a lot of co-operation. There are a lot of mechanisms that have been created to enhance that co-operation and build confidence in it. I think that certainly the U.S. would be in a far weaker position if they were to withdraw from NAFTA.



We haven't really heard much about security at the table, in particular between Canada and the U.S. There is certainly a concern there if the U.S. withdraws from NAFTA. Mexico has said that the relationship with the U.S. is about more than just trade. It's also about security issues. It's also about managing the drug issue. It's about managing immigration. I think it's important that we have co-operation in all of those areas among the three parties, and I think that would leave us all much more secure than we would be otherwise.

• (1700)

**Mr. Earl Dreeshen:** Thank you.

I just have a couple of points on the sunset clause.

We have spoken already about uncertainty, and the sunset clause is part of that. I know that when we have discussions with different groups, it's always brought up, but I'm not sure that everybody understands the significance of it. I'm wondering if you could give us a quick primer of the effects, the different items, and the different areas where there needs to be concern just on that one file.

**Mr. Steve Verheul:** Do you mean on the sunset clause?

**Mr. Earl Dreeshen:** Yes, the sunset clause.

**Mr. Steve Verheul:** We're spending a lot of time trying to negotiate legal language that will be binding and subject to enforceable dispute settlement. That is the primary purpose of developing free trade agreements with other countries: to have a very secure environment for investors to establish the kinds of supply chains that we've seen develop over the years in North America. It's not just supply chains, but also sourcing, product decisions, and investment decisions. All of those are much more effective on the basis of a secure environment.

With the sunset clause, you have very little security at all, because there's a constant threat that the agreement will end. I think few enterprises are going to be looking to make a long-term investment commitment in North America, and in particular in any of the three parties, if they don't have some assurance that the terms of trade are going to be predictable, so that they can know that years down the road, as their investment continues, they will be operating under the same business conditions as they were when they first started that investment. If the prospect is that the agreement will end after one of those five-year periods, all at once their investment is going to be very negatively impacted, because the conditions of trade will change entirely.

**Mr. Earl Dreeshen:** Is it all chapters, then, that they're speaking of, or have they discussed maybe having certain ones that they think need to be re-addressed?

**Mr. Steve Verheul:** The U.S. proposal would address every single chapter, the entire agreement.

**Mr. Earl Dreeshen:** Okay. That's the part that I wanted to make sure we all understood, because I think some people think this is going well and you probably wouldn't want to mess with that, but other people want to have a chance to renegotiate certain parts of it. I think that was the key part.

Do I have any more time?

**The Vice-Chair (Mr. Dean Allison):** You're over time, but you're the last speaker, so you can ask one last question. I think the Liberals are all good for questions.

**Mr. Kyle Peterson:** I have a 10-second question.

**The Vice-Chair (Mr. Dean Allison):** Okay, that's fine.

**Mr. Earl Dreeshen:** I just want to come back to the discussion you just mentioned, because I've been on ParlAmericas. We go down to Central and South America. We have discussions.

One of the critical things that people talk about is drug trafficking and the issues associated with it. We have a NAFTA agreement that talks about the movement of drugs and other crime-related issues. All of these things are intertwined with the three countries and with everything in the western hemisphere.

With our experimentation on marijuana legislation and so on, are there discussions there when we start talking about movement across the border?

• (1705)

**Mr. Peter Fonseca:** Mr. Chair, I think it's out of order to speak about marijuana. This has nothing to do with NAFTA.

**The Vice-Chair (Mr. Dean Allison):** Mr. Verheul, do you have a comment? If not, we'll move on.

**Mr. Steve Verheul:** We haven't had that discussion at the negotiating table.

**Mr. Earl Dreeshen:** Okay. Thank you.

**The Vice-Chair (Mr. Dean Allison):** Mr. Peterson, do you have a final wrap-up question?

**Mr. Kyle Peterson:** Thank you, Mr. Chair. It's a follow-up question.

Earlier you mentioned that we'd fall back on the bilateral agreement, which is currently under suspension, if NAFTA were to not be successfully renegotiated. That said, clearly the priority or our main objective is to pursue the trilateral agreement. Is that correct?

**Mr. Steve Verheul:** Absolutely. I think we would all be far better off if we preserved the trilateral agreement and renegotiated NAFTA to improve it, to make it more effective in a trilateral context, in a North American context. That's our strongest preference by far. That is the best outcome we can achieve.

**Mr. Kyle Peterson:** Okay. Thank you.

**The Vice-Chair (Mr. Dean Allison):** Thank you very much, everyone, for the rounds of questions today. We got in a few extra rounds today as well, so thank you very much for that.

I'll remind members that tomorrow afternoon you can look for the latest draft report in your mailbox, and we'll be talking about that when we come back on Wednesday.

Once again, thank you very much for your time here today.

With that, the meeting is adjourned.





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