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Chair

The Honourable Robert Nault

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●(0845)

[English]

The Chair (Hon. Robert Nault (Kenora, Lib.)): Colleagues, first and foremost, good morning. Thank you for getting here on time.

Now that everyone's here, I think we'll get started with our witnesses. Keep in mind there may be votes in the second half of our discussions this morning. We may have to suspend and/or shut down depending on how we make out. For the first hour, I think we're good to go.

This is a study on foreign policy as it relates to the U.S. and Canada.

In front of us is David Morrison, assistant deputy minister, the Americas, and chief development officer. I'm going to turn it over to Mr. Morrison to introduce his colleagues and then make his presentation. Then as per usual, we'll get right into questions.

For the information of our witnesses, we're very interested, of course, in the ongoing discussions between Canada and the U.S. vis-à-vis not just trade but the overall relationships, including matters like security and others and the view of Global Affairs as to where all of this will take us down the road. We may ask those kinds of crystal ball questions, which I think are important to get a sense of the direction of the Government of Canada.

I'm going to turn it over to Mr. Morrison, and we'll go from there.

David.

[Translation]

Mr. David Morrison (Assistant Deputy Minister, Americas, and Chief Development Officer, Department of Foreign Affairs, Trade and Development): Thank you, Mr. Chair.

Hello, everyone.

[English]

We really appreciate this invitation to appear before the committee as you begin this timely and important study. The U.S. relationship is obviously critical for Canada. On the economic side, trade in goods and services with the U.S. is equal to 44% of Canadian GDP. Seventy-two per cent of Canada's exports of goods and services go to the United States. That figure is always over 70%.

The relationship is equally important or is very important for Americans as well. Thirty-two states have Canada as their largest international export destination, and nine million jobs are linked to trade with Canada.

The Chair: Mr. Morrison, I'm sorry. Just for the record, could you introduce your two colleagues?

●(0850)

Mr. David Morrison: Sure. I'm joined today by my colleagues Martin Moen, the director general for North America and investment at Global Affairs Canada, and by Heidi Hulan, the director general of the international security policy bureau.

I'll make the opening statement touching on many of the issues that I think you are looking at. We were given a list of nine wider issue areas. Then my colleagues and I would be very happy to answer questions.

By way of preamble, I was going to say that working with parliamentarians is a critical feature of Global Affairs Canada's outreach strategy in engaging the Trump administration. In fact, the Canada-U.S. Inter-Parliamentary Group has been down in Washington, and the embassy there has been hosting a wide range of parliamentarians individually and in groups as we seek to forge new relations with the Trump administration. We believe that a cross-party, non-partisan approach is the best way to have an impact on American decision-makers and opinion leaders.

The first question in your study is about the overall priorities in Canada's relationship with the United States under the Trump administration. In a certain sense, this was the subject of the Prime Minister's visit to Washington, D.C., on February 13.

[Translation]

The priorities are set out in the joint statement, which is a roadmap for future cooperation between our two countries. It includes five areas of focus, each with concrete commitments. I'll give you some examples.

The first example concerns the growth of our economies.

When it comes to regulatory cooperation, the Treasury Board Secretariat is leading an ongoing dialogue with senior American government officials. The goal is for the officials to reaffirm the support of the new American administration for the efforts to continue the work and advance regulatory cooperation and alignment opportunities across key economic sectors.

[English]

Minister Brison has met with his American counterpart in Washington, and both parties are keen to push this agenda forward.

Another point mentioned in terms of growing our economies was the Gordie Howe International Bridge. This project is under way, and the winner of the call for proposals for the public-private partnership will be chosen in the spring of 2018.

The second area in terms of growing the economies was on promoting energy security and the environment. On energy security, as we know, the KXL pipeline has now received its presidential permit, and several other projects, either pipelines or electricity transmission lines, are at different stages of review in the U.S. process.

Another area mentioned was air and water quality. Environment and Climate Change Canada is working closely with the U.S., and broad co-operation continues on air and water.

Another area highlighted was keeping our borders secure. Part of this is the entry-exit question. Bill C-21 has been tabled and implementation is expected by 2018.

On pre-clearance, Bill C-23 is at second reading and is shortly going to committee. Implementation is still to be determined and we are now also actively exploring with the U.S. how to do joint pre-inspection for cargo.

Another area was working together as allies in the world's hot spots. NORAD was mentioned specifically. The next steps in modernization of NORAD will be tied to the government's defence policy review, which I believe will be coming out shortly.

On Daesh, Minister Freeland attended a Global Coalition against Daesh meeting in Washington, D.C., hosted by Secretary Tillerson on March 22. As you know, Canada is a member of the 68-member coalition to degrade and defeat Daesh.

Finally, on growing our economies, there was the establishment of the Canada-U.S. Council for Advancement of Women Entrepreneurs and Business Leaders. This council is committed to removing barriers to women's participation in the business community and supporting women by promoting the growth of women-owned enterprises to further contribute to overall economic growth and competitiveness.

Let me now say a word about the government's overall engagement strategy with the new U.S. administration and the new U.S. Congress, as well as at the state level.

● (0855)

[Translation]

On January 20, the Government of Canada, provinces and territories embarked on an ambitious whole-of-Canada strategy of engagement and outreach toward the United States. This includes not only the Prime Minister's official visit to Washington in February, but also numerous visits, meetings and other exchanges between senior Canadian government officials and their American counterparts, as well as with political leaders at both national and state levels.

The Prime Minister, cabinet members, parliamentary secretaries, premiers, provincial and territorial ministers, parliamentary committees and other parliamentarians have completed over 70 visits, of which 40 were by 18 cabinet members and three parliamentary

secretaries. These figures will continue to grow as senior Canadian government officials embark on outreach to the United States in the coming months.

Our strategy has been to engage with as wide a spectrum of interlocutors as possible from across the United States. We've developed an 11-state outreach program for cabinet ministers. Our goal is to bring our message to parts of the United States that often don't get national-level attention but are nonetheless critical to the success of Canada-U.S. relations.

[English]

Let me now turn to some of the pressing commercial issues. Given the administration's "America first" approach, several commercial issues have received media attention recently. We would like to provide you with an update on some of the key files.

On NAFTA, the U.S. administration has clearly noted its intention to renegotiate the agreement, but it has not yet notified Congress accordingly. Canada is open to discussing improvements to NAFTA that will benefit all three NAFTA parties but has not discussed the scope or objectives of any renegotiation. Should these negotiations take place, Canada will be prepared to discuss improvements to the agreement at the appropriate time, as the government has stated. Advocacy efforts are also under way in the U.S. to emphasize the importance of the Canadian market to U.S. exporters, and officials are working with provinces and Canadian businesses to coordinate messaging.

On softwood lumber, Canada continues to believe that it is in both countries' best interests to negotiate a new softwood lumber agreement. Minister Freeland and Ambassador MacNaughton are laying the groundwork with our American counterparts for the eventual restart of negotiations. Canadian negotiators stand ready to re-engage as soon as the United States is ready to do so.

While Canada is committed to negotiating a new softwood lumber agreement, we will not accept a deal at any cost. We want an agreement that is in the best interests of our industry. Also, although we would prefer a quick resolution to this dispute, the Government of Canada is also prepared to defend the interests of the Canadian softwood lumber industry, including through litigation at the WTO or under NAFTA, as appropriate.

Let me touch now on the border adjustment tax.

[Translation]

The concept is currently being contemplated by Republicans in the House of Representatives. We think the measure would be bad for both countries. It would impose extra costs on American companies and disrupt trade at our border. The government, through the Prime Minister, has been raising concerns and soliciting views from a range of stakeholders in the United States, notably in the business community, to help reinforce these points with members of Congress.

• (0900)

[English]

I'll touch briefly now on steel. The commerce department in the United States was asked back in January to develop a plan to ensure that steel for the construction, renovation, and enlargement of pipelines in the U.S would be sourced from within the United States. We are preoccupied with this for two reasons.

The first is that the steel industry in North America is extraordinarily integrated and runs on both sides of the border. The second reason that we are concerned about steel is that this is an attempt to determine procurement that is usually done via the private sector. This is not public procurement; this is the government telling private enterprises from whom they should buy. Those things are usually left to commercial considerations. We have made observations in this regard to the Department of Commerce in the course of its regular consultation process, which is ongoing. As I mentioned, my colleague Martin Moen would be pleased to answer questions on any of these commercial issues.

Let me now turn to trilateral relations, which are also a part of your study.

Canada, the U.S., and Mexico have a long history of collaborating as continental partners in the areas of security, commercial relations and competitiveness, the environment, and other areas. Since 2005 the three countries have been meeting for the North American leaders' summit, which is aimed at advancing common policy objectives in many of the areas I just mentioned. The last such meeting took place in Ottawa last June.

While there are uncertainties about the direction of trilateral co-operation since the election of President Trump, there are at the same time early signs that indicate a number of trilateral commitments from the 2016 North American leaders' summit here in Ottawa will continue. I won't elaborate on them—they have to do with the border, energy security, and regional co-operation—but I'd be happy to answer questions on those trilateral dimensions.

In addition, the annual trilateral energy and defence ministers' meetings are being planned for this spring. There's also been some talk of a trilateral foreign ministers' meeting. These meetings, along with the developments in the renegotiation of NAFTA, will provide us with signals as to the future direction of trilateral co-operation.

[Translation]

I'll now talk about foreign policy cooperation.

The Trump administration came to office with a very forthright "America First" approach to foreign policy. This approach overtly places the United States and its interests at the forefront. The approach focuses on economic nationalism, protection of American sovereignty and hard power.

• (0905)

This policy is in distinct contrast with the policies of both Democratic and Republican administrations that have led the United States since the Second World War. These policies emphasized American leadership in advancing democracy and

human rights, promoting freer trade, building international institutions, and working closely with allies to advance these objectives.

At this point, it isn't clear how the overarching principles of "America First" will translate into day-to-day policies. Furthermore, many of the senior positions in the administration, such as in the State Department, haven't been filled yet. We're in a very early phase.

Intervening events, such as North Korea's missile test or Syria's use of chemical weapons on civilians, may significantly shape the Trump administration's foreign policy. Canada condemned the chemical weapons attack and fully supported the United States' response.

As I mentioned earlier, my colleague, Heidi Hulan, will be pleased to answer any detailed questions.

[English]

Let me end there. I've tried to give you a brief overview of some of the main themes in Canada-U.S. relations right now. We look forward to the committee's deliberations and the eventual report.

We would welcome your questions and comments. Thank you.

The Chair: Thank you, Mr. Morrison, for that very good overview.

We'll start right off with questions from Mr. Allison, please.

Mr. Dean Allison (Niagara West, CPC): Thank you to our witnesses for being here. It's not often we get trade officials here at foreign affairs, so I'm kind of excited about that. Indeed, my questions will be around the trade angle. I will have a couple of questions before I turn it over to Mr. Kent. I'll just throw them out there, and then I'll come back and give a little more detail.

My first question is about regulatory co-operation and pre-clearance. You said that it's progressing. One of the first questions we were asked everywhere we went in eastern Europe was about Trump and what's going on. I'll try not to do that to you, but perhaps there are signals, just based on the conversations and dialogue you guys have had, that would indicate how those are going, and whether they'll continue along those ways and there won't be a pullback, given all the other rhetoric that's been said.

The second question is about agriculture subsidies. I know they come up all the time in terms of our supply management system. We talk about softwood lumber. I've heard the number of \$30 billion for subsidies in the U.S. I don't know if you guys track those things. They're complicated. I know, from when we've been down there, there's always some program somehow that gets around that kind of stuff. Perhaps you could share some of your thoughts on that.

But let's go back to the first question, which is about regulatory co-operation and pre-clearance. Based on the conversations that have happened, do you see that continuing to still move forward? Do you see any concern, based on some of the other rhetoric that's been going on around that?

Mr. David Morrison: Thanks very much. I'll do the first one, and Martin can do the second.

We think that regulatory co-operation and borders in general, pre-clearance being part of the borders issue, are two areas with considerable promise of collaboration with the Trump administration. The Trump administration has come out as wishing to deregulate in a “two for one” sense, so it won't be all straightforward, but Minister Brison met with Mr. Mulvaney, his White House counterpart. Doing more together on the regulatory co-operation agenda is something that I think both parties are enthusiastic about. The U.S. is also looking to Canada for a number of models of how Canada regulates. They're very open, and have expressed interest in visiting and checking out some of our models.

I said that pre-clearance is a subset of borders. I would commend to you the testimony that Secretary Kelly of Homeland Security recently gave in the U.S. He was up here in March for a very successful visit, hosted by Minister Goodale. I believe last week he gave testimony in which he was effusive in his praise for the way Canada deals with the northern border. At the end of his testimony, he said that he thought the northern border should be thinned rather than thickened. The challenge with the border, of course, is balancing the security imperative with the trade facilitation imperative, pre-clearance being very much about both of those things.

The multimodal pre-clearance agreement is going forth. I think I mentioned that the bill in that regard is at second reading and will come to committee shortly. The joint statement that came from the February 13 visit by Prime Minister Trudeau to President Trump does mention an interest in pushing pre-clearance forward even further, including on cargo.

Again, I think there's real scope to make progress on those files with the Trump administration.

Mr. Martin Moen (Director General, North America Trade Policy and Negotiations, Department of Foreign Affairs, Trade and Development): With regard to your question on agricultural subsidies and the United States, the WTO permits its members to provide agricultural subsidies within certain specified limits. In terms of the United States, there's no question that it provides very large amounts of agricultural subsidies to many different sectors—through the Farm Bill, through local programs. It's certainly something we monitor and are very much aware of.

We could follow up with more detail, but at a general level there's no question that there are substantial agricultural subsidies across the range of production in the United States.

● (0910)

Mr. Dean Allison: Would you guys actually track a number? Someone in supply management, oddly enough, mentioned on the weekend that it's, like, \$30 billion. I realize that it permeates everything they do, but do you guys have a ballpark figure?

Mr. Martin Moen: I don't have the numbers with me, but the United States does have notifications to the WTO where they provide their information. We could work with that information—

Mr. Dean Allison: Okay; if at all possible.

I'll pass it over to Mr. Kent.

Hon. Peter Kent (Thornhill, CPC): Thank you.

Thanks to all of you for appearing today.

In 2005 then foreign minister Pettigrew conveyed Canada's disinclination, its refusal, to join the ballistic missile defence of North America. In the last government, the defence committee of the House and a Senate report both recommended reconsideration of participation in BMD. Defence minister Sajjan last fall revealed, as part of the defence review, that it was back on the table.

I wonder if you could discuss the considerations today, given North Korea's ballistic missile testing and its bellicose attitude, the ramped-up rhetoric between Washington and North Korea, and also President Trump's encouragement of all allied partners to invest more and to participate to a greater degree in not only the defence of North America but also of NATO and the world.

Ms. Heidi Hulan (Director General, International Security Policy Bureau, Department of Foreign Affairs, Trade and Development): Thank you for that, and good morning to the members of the committee.

On the general point of our security dialogue with the Americans, I think the members of the committee are aware that this is both broad and deep, and it covers both continental defence and our shared interest in the Euro-Atlantic region and the stability of that zone.

With respect to ballistic missile defence, you've correctly captured the history of that. I would say that as the global security environment has evolved—and the North Korean missile threat is one that we are tracking extremely closely, particularly with respect to the pacing of their testing, which suggests advances in their capabilities—we continue to examine whether our current policy regarding participation in continental BMD addresses Canadian safety and security interests. You are correct that as part of the defence policy review, the defence department and Mr. Sajjan consulted Canadians on this question. As you are probably aware, that review is currently being concluded, so it will be for ministers to decide how to pronounce on this particular issue. Among the things that we weigh for this issue are questions such as the nature and severity of the threat, the question of what Canadian involvement could bring to bear on that system, and, indeed, whether or not there is a request of Canada to make a contribution to that.

Could I say a few words on the dialogue that is ongoing with respect to defence spending more generally? You've raised it, and I know it's a subject of real interest in the public domain. The new American administration has taken a very strong view, as you know, with respect to the NATO target of 2% of GDP defence spending. Canada's view on this has been and remains that burden sharing, within the alliance and more generally, cannot be measured solely in the number of dollars that are spent on defence. How you spend your money is at least as important as how much money you spend. In that regard, we consider capabilities to be first and foremost, and our contributions to alliance operations to be the real measure.

On this front, Canada has, as you know, contributed to every NATO mission since the alliance was established 68 years ago. We're now taking a lead in Eastern Europe with the leadership of a battle group in Latvia as part of the enhanced forward presence in Eastern and Central Europe, and we are the sixth-largest contributor to the alliance. We feel the need to take the view that we have consistently shown our capability and readiness and willingness to assume a very large share of the NATO burden, both within the alliance and in its expeditionary missions, and that remains unchanged. I expect this to be a focus of discussion when leaders meet in May, and Canada looks forward to those discussions with allies.

Thanks.

● (0915)

The Chair: Thank you, Mr. Kent and Mr. Allison.

We'll go to Mr. Sidhu, please.

Mr. Jati Sidhu (Mission—Matsqui—Fraser Canyon, Lib.): Thank you, Mr. Chair.

Thank you all for being here this morning.

Ms. Hulan, since you have the floor, I would be interested in hearing your thoughts on the current world nuclear weapons stockpile, given your expertise in the arena of non-proliferation and disarmament. In your view, is enough being done on the global stage towards the goal of global nuclear disarmament? What sort of role do you see Canada playing or has it played in the past?

Thank you.

Ms. Heidi Hulan: The global disarmament environment is perhaps more polarized at the current time than at any period during my career. Strong views regarding the slow pace of disarmament by the P5 and others who possess nuclear weapons, obviously, have given rise to the current negotiations under way in New York on a nuclear weapons ban treaty.

Canada very much shares the frustration with the slow pace of disarmament. The prevalence and number of nuclear weapons—whose figures I have not brought with me today, so I can't quote them—is many times more than what is required for global security. Therefore, we have always supported the idea of global zero. We also support the movement, which has built up, regarding the humanitarian consequences of nuclear weapons.

However, our view of the current negotiations is that they are likely to deepen divisions between nuclear weapon states and non-nuclear weapon states in a way that is likely to make real disarmament in the future more, not less, difficult. Then we see in these negotiations the potential only for a declaratory statement. In this treaty to ban nuclear weapons, currently under negotiation, there will be no verification provisions, no targets, and no involvement by the people who actually possess the weapons, and therefore need to dispose of them. Therefore, the treaty is not going to lead to the elimination of a single nuclear weapon.

As a result of all of those dimensions—the practicality associated with it as well as the long-term impact on disarmament prospects—we've taken the view that now is not the time for that discussion. However, we remain convinced that earnest step-by-step negotia-

tions with verification provisions toward nuclear disarmament are essential and cannot wait.

That is why Canada initiated a resolution at the UN General Assembly last fall, which I'm pleased to say passed with the overwhelming support of 177 member states, to initiate a preparatory group to lay the groundwork for the eventual negotiation of a fissile material cut-off treaty that I will chair for the United Nations. The elimination and restriction of access to fissile material, the material that gives nuclear weapons their potency, is almost universally regarded as the next step toward a world free of nuclear weapons. We believe it is possible to make progress. I'm very proud to say that Canada has led that effort internationally for 20 years now, and we will continue to lead that in the coming year.

I'd be happy to speak more about it as that process unfolds, but for now we're at a very early stage.

● (0920)

Mr. Jati Sidhu: My next question is for Mr. Morrison. I know Mr. Trump and the U.S.A. is a hot topic, but with your background with CIDA and your lead on bilateral development assistance, how would the comprehensive approach to economic assistance be developed in the case of Ukraine. What tools and processes would Global Affairs Canada use to assess the need in Ukraine in order to offer effective economic assistance?

Mr. David Morrison: Thank you.

You mentioned my past at CIDA, where I was in charge of bilateral development assistance. A couple of things have happened since then. The first was the amalgamation of CIDA and DFAIT into Global Affairs. Most of that programming still happens in the same way it did under CIDA, and we still have a major program in Ukraine. There has been a year-long process of consultation and policy development on the development side in tandem with the forthcoming defence review, which looks at a new policy funding framework and delivery mechanisms for our overall assistance worldwide.

With respect to Ukraine specifically, we have a country team on site. We run that particular program in a decentralized fashion, meaning that the Canadian staff are on the ground, in the capital and elsewhere, where we are programming. That's how we determine what the best programs are to support.

In terms of the country's own plans, as you mentioned, for economic development as well as social development, and any of the other priorities, the general answer to your question is that in Ukraine and elsewhere, we have people on the ground. We work through partners. Some of them are in the multilateral system, some are Canadian NGOs, and some are local NGOs that have broad local knowledge. We design our programs accordingly.

The Chair: Thank you.

We're going to go to Madame Laverdière.

[*Translation*]

Ms. Hélène Laverdière (Laurier—Sainte-Marie, NDP): Thank you, Mr. Chair.

I want to thank the witnesses for being here this morning.

I counted, and I have 10 questions. I probably won't be able to ask them all, but I'll try to proceed very quickly.

Before asking my questions, I'll make a quick comment on the nuclear weapons treaty currently being negotiated. I think it's a bit early to decide what the treaty will contain when the negotiations haven't finished yet. In the case of landmines, we knew that key players wouldn't participate in the treaty, and yet we dealt with the matter. A number of experts think it could actually be effective. I would have liked Canada to follow the lead of the Netherlands and at least agree to attend the negotiations, if only to have an insider's view.

That said, I won't launch a big debate on the issue here. However, I'd like to know whether the American authorities have explicitly asked Canada not to participate in or attend these negotiations.

• (0925)

Mrs. Heidi Hulan: Thank you for the question.

[English]

The Americans, and all NATO allies, have discussed, in multiple venues, the issue of the ban treaty negotiations, with a view to collaborating, by sharing information and positions. It is a fact that we have had those discussions in New York and Brussels. In that context, there has been no direct request of Canada, but I would say there is a very shared understanding on our part that this is not in our interests at this time and will not lead to progress on the disarmament side of things.

Thank you.

[Translation]

Ms. H  l  ne Laverdi  re: Thank you.

I know that I'm putting you in a difficult position, since nobody really knows exactly what's going to happen under the Trump administration. The administration is threatening to make drastic cuts in the area of multilateral cooperation at the United Nations, in programs such as the United Nations Fund for Population Activities, or UNFPA.

How far do you think the Trump administration will go in this regard? I also want to know whether Canada is working with its other allies to see how the Trump administration could be convinced to not make excessive cuts or how the potentially dramatic impact of these cuts could be mitigated.

[English]

Mr. David Morrison: As you've said, it is still early days and very challenging to know where much of this will come out. If you look at how policy positions have evolved from January 20 until now, and frankly, if you look at the President's willingness to roll back previous positions, it's very hard to say where the U.S. will come out on some of those key funding issues.

I tried to say in my opening remarks that we really don't know what "America first" will mean in terms of U.S. foreign policy. And the Trump administration has not said very much on U.S. development policy.

On the glass-half-full side of things, you've mentioned the cuts. The big cut has been to the UNFPA, and there are threats of large

cuts to the multilateral system, principally the United Nations. On the other hand, the glass-half-full interpretation would be that President Trump seems to have appointed an active and forceful cabinet-level representative as his permanent representative at the United Nations.

So my overall answer would be that it's too soon to tell. In terms of the implications for Canada, the U.S. is a very large funder of the multilateral system. You've seen what happened on the Mexico City policy, and the spillover onto the UNFPA decision. The Netherlands has stepped up—this has to do with the funding of reproductive rights—and Canada participated in that shift. Neither Canada nor any other of the traditional funding countries would be in a position to step in if the United States went forward with all of its threatened funding cuts. I am aware that the UN in particular is watching this situation very closely.

But my answer is that it's too soon to tell.

[Translation]

Ms. H  l  ne Laverdi  re: Thank you.

You said that 72% of our exports go to the United States. It seems to me that, at one point, the proportion was over 80%. Can you send us the figures for about the last 20 years so that we can check? I want us to follow up on this issue after the meeting. I'm trying to ask the maximum number of questions in as little time as possible.

I want to follow up on your last comment. Do we have news regarding the appointment of the United States ambassador to Canada?

Also, you offered to talk about the statement following the last trilateral meeting. Regarding Canada and Mexico, you seemed to say that some items would remain on the agenda and that other items may disappear. Can you elaborate on this, if you have time?

• (0930)

[English]

Mr. David Morrison: Chair, I'll try to go very quickly.

Of course, we'll send the information you requested. Different statistics get batted around. It depends on whether you're talking about exports of goods alone, or goods and services, but we'll provide you with those statistics going back some time.

I have no new news on the appointment of a U.S. ambassador to Canada. There is a name, a woman from North Carolina—her name escapes me for the moment. We can come back to you on that. I don't believe a hearing has been scheduled.

On the trilateral agenda, as in my opening remarks, I tried to say that it's another area where it's too soon to tell. The key trilateral file is NAFTA. Depending on how NAFTA goes, I think much else will roll out. I did say that defence minister meetings are continuing. I think energy minister meetings are continuing, and there's a potential for a foreign ministers' meeting. On concrete files, work continues on a single-window approach to customs procedures. We're not quite to the point of "entered once, cleared twice", but we're trying to get there, and that kind of trade facilitation measure continues.

I mentioned that borders and energy are two areas of continued co-operation between Canada and the United States, and that includes Mexico because it has recently liberalized its energy sector. That's an area where there's continued potential for trilateral co-operation.

On security, think of opioids; think of transnational crime, such as trafficking and human trafficking. On those kinds of issues, we can expect to see continued co-operation. Mexico and the United States in particular have deep and ongoing collaboration on security issues. There is the new U.S. Secretary of Homeland Security, Secretary Kelly. General Kelly's previous job was head of SOUTHCOM in Florida, looking after the military aspect of Central and South America. I think you'll see continued close collaboration between those two countries and Canada as well because of the spillover effect.

Then, finally, you will see regional co-operation continue for the same reason that I mentioned. Secretary Kelly is very interested in it. The northern triangle countries of Central America and the challenges they pose to the United States and to Canada in a wider regional security sense, continue. Canada, the United States, and Mexico will have an ongoing interest in collaborating on addressing those challenges.

The Chair: Thank you. Madame Laverdière, we'll go to Mr. Saini, please.

Mr. Raj Saini (Kitchener Centre, Lib.): Good morning. Thank you very much for being here this morning.

My first question is regarding the trilateral summit that you mentioned, Mr. Morrison. As we know, in July 2018 there will be a Mexican election. We know that President Peña will not be eligible to run. From some of the reading I've done and what I've heard on the ground, the next election in Mexico will be fought on some sense of economic nationalism.

If you look at what's happening right now with NAFTA—and you were quite clear that this would have to be a trilateral arrangement—my fear is that if that election is fought on economic nationalism, when the new Mexican president assumes office, part of his platform will have to cater to domestic considerations. You're going to have a natural tension point between the United States and Mexico. Where does Canada fit in? Eventually, whatever the negotiations lead to, either they will lead to a trilateral agreement within NAFTA, or there will have to be a bilateral agreement with the United States with Mexico out.

Is there a contingency plan for both scenarios? Obviously, the easier one would be to have all three at the negotiating table. On the other hand, if the Mexican election in 2018 proves to be fought on

economic nationalism, and they recede or recuse themselves from NAFTA, then, because of the supply chain integration, I wonder how we are going to manage that file. Are we going to have to have two agreements? What are your comments on that, or do you have any sort of fallback plan or backup plan in that scenario?

● (0935)

Mr. David Morrison: Let me say that we are tracking it very closely. I'll unpack a bit of what you just said. The Mexican electoral calendar is the following. The actual election is in July 2018, but the informal electioneering has already begun, as you noted. There are various theories as to what the key issues will be. It will begin in earnest as we get into December 2017 or January 2018. I believe there is a law or at least a protocol in Mexico that anybody running for president has to step out of current functions six months before the election. That's how that timeline is driven. Then there is a very long period between election day and the inauguration. There is a very long handover period that lasts from July, in this case July 2018, through to November. The Mexican electoral calendar will intersect with the NAFTA renegotiation calendar, or at least the projected calendar, and I might turn to Martin in a moment to speak to the NAFTA calendar.

The other thing I would say, on your question about a trilateral or bilateral negotiation—again, Martin can fill in the details—is that Canada's position is that we would like a trilateral negotiation. That is Mexico's position as well. But even in the existing NAFTA, which is a trilateral agreement, there are various elements that are essentially bilateral in nature. This question continues to be presented in the media and elsewhere as a binary question—it's either bilateral or trilateral—but you can have a trilateral negotiation that ends up with elements that are more applicable to two of the parties than to all three parties.

Mr. Martin Moen: With regard to the NAFTA, our view is that a trilateral arrangement works well. When you take a look at the kinds of investments and sourcing decisions that have been made in many sectors, you see that these have been made, over the last couple of decades, on the understanding that a trilateral agreement is in place, and that's how many sectors have organized themselves, most notably the auto sector.

We think that this kind of trilateral supply chain is quite beneficial to Canadian manufacturing, but also to U.S. manufacturing, and we've certainly heard many voices in the U.S. saying that being part of a trilateral supply chain helps promote manufacturing success in the United States. As we've certainly heard, the Trump administration views manufacturing employment as something very important. We do think that if we were to move down a direction where these kinds of investment decisions and supply chains were undermined, it would have a very negative impact on manufacturing in the United States. I think there is an awareness of that.

Right now, from what we hear from testimony in the United States by the U.S. administration, there is a discussion about the value of bilateralism, but there is also a recognition of the importance of the supply chains in North America. Right now, all the focus is on getting ready to put forward, from the administration, a notification to Congress of an intent to renegotiate the NAFTA rather than to tear it apart.

As for what might happen in the future after some election, and what the timelines might be, it's very hard to tell. Certainly we've done the analysis and are thinking through a wide range of possibilities, but definitely our preference would be to maintain the general structure of the agreement going forward.

● (0940)

Mr. Raj Saini: Thank you very much for that.

Mr. Morrison, I want to discuss something you mentioned in your opening remarks, that right now there is a trend in the United States toward hard power. I'm reminded of Professor Nye's comments in the eighties about soft power. As you know, the definition of soft power is the ability to attract and persuade.

For me, when we look at where the United States is going right now, we see China utilizing soft power, whether they are developing parallel structures right now in the world economy—the Asian Infrastructure Bank, or the one belt, one road initiative, it seems to me that if you look globally where the trend is going, the United States is reverting to hard power, but China is utilizing soft power, whether in Latin America or in Africa.

You mentioned the Mexico City proposal, talking about the U.S. global gag order. It seems to me Canada is trying to fill the gaps in many areas, but ultimately as a smaller country, we cannot always fill in gaps where they decide to recuse themselves.

Where do you see the Canadian foreign policy going now, managing two large economies and two countries with the very distinct, clearly aligned, and clearly forceful policies? One is using hard power and one is using soft power. I see this coming back to the definition of the Great Game, from which Russia has now recused itself to some extent, but China and the United States are now competitors to a large extent. Where does Canada's foreign policy fit in with that?

Mr. David Morrison: Thanks for the question. It's a big one.

Mr. Raj Saini: We have an hour.

Voices: Oh, oh!

Mr. David Morrison: I'll come to the Canadian part in a moment, but my answer to the hypothesis of China turning to soft power and the United States turning to hard power is that it's too early to say. That would be my gentle push-back.

I think that going back to my remarks on what “America first” means, we don't really know how much hard power versus soft power the U.S. is going to use, because they haven't filled out what “America first” means.

Likewise, China has embarked upon the ventures that you have mentioned—the Asian Infrastructure Investment Bank and the one belt, one road policy—as well as many others in Africa, the Caribbean, and Latin America. Particularly on the economic development side, I think it's debatable whether those programs are soft power. They come with a lot of money and not many conditions. I suppose the outcome is intended to be the same, but the overall sense of what last week was certainly considered to be the most important bilateral relationship in the world, that of the United States and China, I think, is that it's a work in progress.

To come to the second part of your question, how Canada fits in, a lot of people in our building spend a lot of time thinking about it. Obviously the world is changing in ways that, frankly, were not fully anticipated before the election of President Trump, and we're having to think through, both long term and on a daily basis, where Canada's interests fall. It is certainly with respect to that key relationship that you mentioned—the U.S. and China—but it is very much as well on the commercial side, in free trade agreements, and on the strategic side, in where Canada's interests fall, given the rapidly changing dynamic in the Middle East.

It feels like a moment in international relations, and when you reach those moments you have to look at all potential scenarios.

● (0945)

The Chair: Thank you very much.

Colleagues, I think we'll have to wrap up our first hour here.

I want to thank Mr. Morrison and his colleagues for coming today. I think we probably need a lot more time than we got, so we probably will have to have you back some time later on as we get more in detail in the study.

The one thing I found the most interesting in your comments was the continuation of this view that it's really hard to read where the Americans are going, for a number of reasons. One, they have a brand new government, a brand new administration, and a lot of the people who should have been appointed, have not been appointed yet. It's pretty hard to do business with people who are not there yet. This is a fluid discussion that we're having as it relates to our relationship.

Thank you very much for taking the time. We'll have you back at one point during this session. This is going to be a longer study than normal, and we think this is a very important discussion. For example, softwood lumber alone, which is a big issue for many of us Canadian politicians, is a meeting in itself. I think we'll have an opportunity to discuss some of those bigger files.

Colleagues, we'll take a short break, and then we'll go right to our next presenter.

Thank you very much.

● (0945)

_____ (Pause) _____

● (0950)

The Chair: On behalf of the committee, I want to take this opportunity to welcome the Canadian Chamber of Commerce. In front of us are the senior vice-president of policy, Mr. Warren Everson, and his colleague, Adriana Vega. I don't know what Adriana's position is, but I think Mr. Everson will tell us.

We're going to turn the floor over to Mr. Everson and get right into the presentation. Hopefully, we'll get through.

I apologize in advance, Mr. Everson, because I have a funny feeling that the bells are going to start ringing, but we'll keep going as long as we can, with the proviso that you will accept our invitation to come back at some point if we can't get anywhere near where we think we need to go on this presentation.

I'll turn the floor over to you, Mr. Everson.

Mr. Warren Everson (Senior Vice-President, Policy, Canadian Chamber of Commerce): Thank you so much. I've become the Quasimodo of witnesses here. Every time I sit down the bells start to ring.

Voices: Oh, oh!

Mr. Warren Everson: I am very pleased to be invited to this committee. This is my first appearance in front of the committee under this House. I'm very delighted to see your taking this issue to ken, as there's no more important issue for Canada's foreign relations than our relationship with the United States. I do believe we'll probably be back in one form or another in front of you before your work is finished.

I do want to commend staff here, Ms. Crandall and her staff, for preparing a list of questions. I think it was the first time that I've had a list of questions from the committee in advance, and it was very thought-provoking. Unfortunately, I'm confined to the economic issues of the chamber's mandate, so I can't wander off into all the other fascinating issues that were raised here, but I do appreciate it.

I also want to apologize that all of my remarks today will be in English. That's a first for me, but I screwed up my instructions to my translator, so tomorrow or the next day I'll have a perfectly lovely translation of my remarks.

We are all watching the U.S. situation with fascination and concern. There is an angry, almost violent quality to U.S. politics right at this moment, and threats emerging from all manner of different sources. But, in truth, there is no anti-Canada lobby in the United States. In the chamber, we're mobilizing our members and our own leadership to engage with U.S. business in their home districts, to remind them how valuable our relationship is and how damaging it would be to them if that relationship were disrupted.

Adriana Vega, to my left, is our international affairs director and will be one of the key actors in the chamber's campaign. Adriana is a polynational. She was born in Mexico. She has served with the Canadian embassy in Mexico and Beijing, has lived in London and worked with the U.K. India Business Council before coming and joining us. She just got back yesterday from Japan. I had a speech in Morrisburg recently, so that's cool, but Adriana will no doubt be called upon to answer some questions.

• (0955)

The Chair: Where is Morrisburg?

Mr. Warren Everson: With regard to our relationship with the United States, we have a great story to tell Americans. We're just trying to find the best way to tell it. Millions of Americans depend on us for some part of their prosperity, and almost none of them know that. Over the next few months, our CEO and some of the key members of our industry groups will be participating in missions in the United States. We're working very closely with David Morrison and his team on this. Our first visits will happen in a couple of weeks when the President will be in Carolina and then back into the south again.

I think we have to be somewhat limited in our expectations. Americans don't need a big, long economic essay on their relationship with Canada. They just need to be reminded of it and warned that every time something bad happens in Canada, it will

tend to rebound back into the economy of the United States, and people there will be victimized.

I think we shouldn't have a convention, or an annual meeting, or whatever at all this year in which somebody doesn't stand up and say, "Folks, we have a good relationship going with Canada. Don't let those—insert adjective here—in Washington screw it up." That's almost all we need. As I say, there's no pent-up aggression towards Canada among Americans, to our knowledge.

I'll mention three key areas we're looking at, and then I'm anxious to get on to questions.

The first one is the renegotiation of NAFTA. Then there is the promised tax reform in the United States, which represents another big sprawling issue. Then, loosely, is a category called "everything else", because as we all know, there are hundreds of other issues that might intrude.

Speaking as quickly as I can about NAFTA, we have renegotiated NAFTA a number of times, I think about 10 times, since the agreement was signed. The provision in the agreement is for the parties to reset definitions and to make small changes, literally the tweaks that Mr. Trump referred to a couple of months ago. That doesn't, however, appear to be what the Americans are now planning.

As recently as a couple of years ago, the Canadian Chamber of Commerce was advocating that NAFTA be reopened and renegotiated simply because it's an old agreement. It doesn't include a raft of things that are present in our economy such as e-commerce. It has very antiquated definitions of employment categories and the like. We thought it was a grand idea. Also, negotiators from Canada and other countries were showing us what could be possible in the CETA agreement and in the TPP, in which more ambitious and very interesting provisions were being included.

I don't think we would have chosen to open NAFTA in the current environment, but these are the cards we were dealt. I think all three countries can look forward to significant improvements in this agreement if the attitude of the negotiators is that it should be of mutual benefit. I agree that it's not obvious that's the attitude today.

The rhetoric by important Americans, most notably the presidential candidate Donald Trump, was far from having any suggestion of mutual benefit, but I do think Canada should enter these negotiations with the same hopeful and tough-minded approach that we bring to all negotiations. We will have to make some concessions. We will seek some advantages. We certainly have things to get from a new NAFTA. If the concessions we're asked to make are excessive, we'll have to be prepared to walk away from this agreement.

We should remember that the Americans didn't enter this agreement out of charity or any kind of favour to us. This was very beneficial to them. For those of you who noticed it, the draft letter that was prepared for Mr. Vaughan's signature to the Congress two weeks ago started with a report on how significant NAFTA has been to the U.S. economy. I don't think when wiser heads prevail that they will be cavalier about the future of the agreement.

We have a whole raft of offensive objectives here. We have an updating of our occupational designations. I mentioned that the enormous administrative burden around the current rules of origin should be lightened if possible. Your previous witnesses talked about the regulatory co-operation exercise. We're very strong supporters of that, and U.S. members of the Chamber of Commerce are also. That's been a bright spot in our relationship in recent years. We do think that should be enshrined in NAFTA as a chapter.

On the defensive side, we think Canada has to fight very fiercely against the most blatant protectionist measures that are being talked about, such as Buy American and country-of-origin labelling. We should remember that the whole purpose of the North American Free Trade Agreement was to expand trade and make it more free. We should be very hostile to the concept that we are negotiating a trade restraint agreement.

I was EA to the minister of trade at the time the negotiation was finalized, and we brought the legislation to the House. Chapter 19, on the countervailing duties dispute-settlement mechanism, was really the main reason Canada entered into the free trade agreement, to get away from this endless legal harassment. There is a big lobby in the United States to get rid of Chapter 19 and go back to the courts. It should be a very high priority for Canada to fight that. Chapter 19 is not working very well; it's all gummed up. But we know that the Americans who claim the issue is their sovereignty are really just anxious to getting back to using the court system essentially as a tool of trade harassment.

• (1000)

When we see the official notice to Congress from the administration, we'll have a better sense of what they are after and then we can start to calibrate what we have to gain and when.

I'll very quickly mention that in some ways I think the tax reform exercise is more hazardous for Canada, because there is no adult supervision. It's going to be a massive food fight in Washington, and as the parties horse-trade, they are not going to be aware of who is winning and who is losing, beyond the specific interest they are advancing. It does not appear—and this is my own comment—that the administration will hold a very tight rein on Congress and that they'll be able to dictate the terms.

We see these massive, sweeping proposals for moving the revenue sources of the United States very dramatically from state taxes and individual income tax to border taxes and payroll taxes and so forth. Those kinds of grand designs are hazardous, probably to them and certainly to us. I don't think we should panic at this point. Back in February—and this is my favourite quote so far—Senator Tom Cotton, a Republican, said in the House, when talking about the border tax, “Some ideas are so stupid that only an intellectual could believe them”.

Some hon. members: Oh, oh!

Mr. Warren Everson: I do think the fusion of protectionist sentiment with a desperate need to find new sources of revenue is a significant risk to Canada. Again, the only way to stop this is for Americans themselves to be on the watch for their own best interests, and if they see something that's will be very negative to Canada, and

therefore destructive of their biggest customer, they might and could speak in their own defence and therefore help our situation as well.

I'm going to move on. I have a section called “everything else”, which would include all the other possible irritants and *exacerbants* that may emerge between us.

The most important threat we face from the United States is probably not any of these overt actions, but just as a result of a general gesture by the United States administration to improve the competitiveness of U.S. business. Regardless of whether we like what they're doing—cutting taxes, cutting regulation, deferring environmental spending, repatriating capital from other countries with a tax amnesty—and whether we think any of those things are good or not, they will have a very significant impact on the competitiveness of American business, and neighbours like us are going to have to respond to them. I think that is the biggest challenge we face—not any of the specific actions but the general improvement in the opportunities to invest in the United States and diminution of the attractiveness of investing in Canada.

The Canadian government so far has done a masterful job of engaging with the United States at the political level; we've seen everybody. From the moment someone is appointed and then is approved by Congress, a Canadian is waiting to take them for coffee. That's been very impressive. American diplomats are reflecting that to us, saying that they've not seen a campaign as effective as this, or at least as active as this.

But the next exercise is to get out of Washington and into the heartland where Americans are talking to their own legislators about their own interests and to make sure that Canada is seen as a positive for that, and that dangers to our relationship be avoided.

That, I think, would be a good place for me to stop, Mr. Chairman. I look forward to questions.

The Chair: Thank you, Mr. Everson.

We're going straight to Mr. Allison.

• (1005)

Mr. Dean Allison: Thank you very much for being here, Mr. Everson, and Ms. Vega as well.

One of the things that always concerns me is that we always perceive America as being this great entrepreneurial heartland and fair in what they do, and yet they have been protectionists in the past, and I think more so now with Mr. Trump.

I agree with what you're saying on the engagement, etc. When they start talking about trade deficits, the reality is that we import more from them than we export to them, even though that number is pretty close.

You talked about our officials being down there. Give us some more examples of things you guys are doing at the chamber. What more can we do? I know we're talking about the possibility of being able to go to places other than just Washington to have these discussions with state legislators, etc. Would you expand a little on what more we can do?

Mr. Warren Everson: We're having discussions with the war room that David Morrison runs over at Global Affairs to plan visits. Starting with our CEO and other significant business people who might be in our membership, we want to see whether or not it's possible to have a Canadian politician or various Canadian politicians come along at the same time, and that way perhaps bring out American legislators at the state or federal level. There's an enormous amount of information being built up now about the relationship, so that when you're in Louisville, Kentucky, and you happen to mention to somebody that the largest customer of this particular factory is Canada, it doesn't take them very long to figure out that an unemployed Canadian is not going to be able to buy as many of their products.

So, we're trying to build these regional campaigns, combining with media and social media and so forth, to try to warm up each area of the country. When we talked to Global Affairs, they said they would like us to go south, if we wouldn't mind. They have the border states pretty much cross-hatched with different Canadians visiting, but in Alabama they couldn't pick a Canadian out of a police lineup. So they want us to go down there and remind them that we buy rubber tires and chemicals, and all manner of things from them, or we sell to them.

We are the largest purchaser of American goods in the world, and while our trade balance goes like this every now and then, Mexico's and China's trade balances are not close at all, and ours just keeps fibrillating back and forth. We bought \$48 billion worth of trucks and cars from them in 2015, and there isn't another market like that around the world for them. To the degree to which they are seized of that reality, then, I think we're as well defended as we can be.

Mr. Dean Allison: My other question is about when you talk to your counterparts in business down there. Obviously, they understand us well because they're selling to us. Are they active in any way in this regard? I realize that until it happens, we'll always be thinking it's not going to happen. Maybe it won't. People don't respond. But is there any thought of their also reaching out to their own legislators?

Mr. Warren Everson: To some extent, yes, I think so.

Mr. Donohue, the head of the U.S. Chamber of Commerce, was here a couple of months ago and visited the Prime Minister and others, and made a speech. He made it absolutely clear that he considers the Canada-U.S. relationship to be of tremendous benefit to the American economy and that his organization will be very hostile to actions that impinge negatively on it. My boss is planning to visit Carolina in a couple of weeks, and we're just planning which locations he will visit in either North or South Carolina. The manufacturers from South Carolina asked to see him as soon as they heard he was coming. So they want to have a meeting.

Again, I think there's an appreciation among lots of people. Our biggest dangers are probably from the backhanded collateral damage when they act against some other country, and we get caught up in it.

Mr. Dean Allison: I have just one final thought. I think it's a great idea if business is going down to try to include legislators as well, because then there's an opportunity to try to open those doors at the same time. It's always great. When we go down as politicians, that's

one thing, because we meet with politicians; but when we go down with business people, I think that adds another dimension.

Mr. Warren Everson: Obviously the politicians bring a level of skill that not every business leader has as well, so I think you can do a one-two punch that's effective.

Mr. Dean Allison: Some would call it skill, sure.

Thank you. We appreciate that.

The Chair: Thank you, Mr. Allison.

I'm going to go to Mr. McKay. We're going to keep to the time fairly tightly, because we'll see what happens with the vote, and then we'll get to everybody.

Mr. McKay.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

Thank you for coming.

I agree with your central premises. Canadians know how important the American economy is to them, but very few Americans actually know the reverse. Hence, there's value in those little brochures that the embassy gives out when you're sitting with a congressman or a senator; the trade figures are broken down by state, and even sometimes by district. Almost inevitably the eyebrows shoot to the top of their heads, and they'll say they didn't know that.

I don't know whether your organization had much to do with putting those together, but I found them to be a very useful tool.

I want to ask a number of questions with respect to the thickening of the border. I got a very irate call from a very good friend of mine yesterday who runs a small business. It's a spice business. It's a very prosperous business. He imports spices and distributes them to 36 countries, and obviously, the U.S. is a major country. When he sends a shipment down to be distributed in the U.S., he sends with it one of his employees who teaches the distributor how to mix and match, etc.

This particular individual has been doing it for 13 years. He got turned away at the border. By the way, he had no Muslim name or anything like that. He got turned away at the border because the border guard said he was going to take away a job from an American. This guy's going to be in and out in 24 hours, and he's told that he's going to take a job away from an American.

I have a number of anecdotes to that effect. The question is, in your observation, is there a trend developing here? Do these anecdotal events actually end up as trade impediments?

● (1010)

Mr. Warren Everson: We hear those kinds of anecdotes now. Global Affairs says they track the numbers and that the numbers are down for those kinds of harassment things.

By the way, that's not a legal action by that border guard. He's not entitled to deny anyone access to the United States.

Hon. John McKay: Yes, there's something fishy here.

Mr. Warren Everson: We do look forward to, and you heard the previous guest talking about, pre-clearance at land crossings. It does seem maddening that the same truck leaves the same plant with the same product heading for the same buyer driven by the same driver every day on behalf of Chrysler, Magna, or someone, and has to be stopped and searched at the border over and over again. You wonder why we can't build a trusted shipper design. Your friend with the same driver going every year, or more often, would be a candidate for it.

I'm of the mind that this American administration will like that kind of stuff. I think we'll see them engaged on that. I think they'll see that as forward progress and a way of getting rid of the waste of the resources that are currently employed. The one caveat here—and I think we all know it—is the nightmare scenario for us that someone whom we've let into our country, but whom the Americans wouldn't have allowed into their country, crosses the border and commits a crime. That will be on every news broadcast. We have to demonstrate, and the political leaders more than anyone, I think, have to demonstrate, that we have their backs. Americans have to believe this and that we're serious about their security. That's an overwhelmingly significant issue and not one that we quite absorb north of the border.

Hon. John McKay: It's almost a paranoia. I just came from Phoenix. The craziness of the security there was just beyond. There's no analysis of whether I was a security risk, for instance. No one else....

The second question has to do with how we are treated as a domestic supplier for the purposes of military procurement. I think that's a very curious anomaly and something that we need to explore and expand. For the purposes of military procurement, we're treated as a domestic supplier, but for the purposes of supplying PVC pipe or steel to that same military base, we are treated the opposite. What craziness does that mean to how their country of origin stuff works?

Mr. Warren Everson: I don't have a competence in this space, so I can't say anything useful. You've made the point.

I think, in the imperial period of the United States in the fifties and sixties, Canada was seen as a helpful little brother for the military, and so it ended up with a separate path, probably much to the benefit of people trying to do their manufacturing here in Canada.

Hon. John McKay: It strikes me as a very useful argument when they say, well, for the most sensitive procurements, you're exempt, but for junk, you're not. It's crazy.

Mr. Warren Everson: Americans also don't know the degree of intimacy of our co-operation on defence. There are Canadian officers commanding at Cheyenne Mountain, and there is the Five Eyes' daily exchange of intelligence. There is an enormous amount of co-operation. We have their backs. We need to tell them that continuously.

• (1015)

Hon. John McKay: My third question has to do with the Canada-European trade agreement. I see this as ultimately quite an advantage to us. The Americans have no interest in multilateral agreements, either TPP or EU stuff. In terms of using that as an advantage, is there an argument to be made that some product made in California

with an ultimate destination in Europe could be shipped with advantage through Toronto?

Mr. Warren Everson: Yes, there might be.

Hon. John McKay: Should Americans be reminded of that?

Mr. Warren Everson: Not in noisy ways. It's perhaps for the Europeans to [*Inaudible—Editor*]. This is the whole argument around country of origin, and the rules about that are arcane and very expensive to administer. Mr. Ross, the new commerce secretary, spoke a lot about tightening up the rules of origin under NAFTA, which I don't necessarily think would be a bad thing for us if it were North American oriented. However, the world economy is shifting all the time, and you see all these charts that show that a Saab vehicle, and the like, is made up of 50% product from outside the country.

I'm not sure where this is going to go, but yes, of course, there might be some significant advantage. Canada has, over the last 20 years, secured for itself some highly advantageous positions with respect to access to markets that other people don't have.

Hon. John McKay: Concerning this lunacy of a border tax, when I was in Washington a few weeks ago, I'd sit with a congressman and say, "Look, when I'm in my living room in Toronto, I'm consuming electricity that was produced in Cleveland, in New York, in Quebec, or in Ontario. How are you going to tax that?" Not one of them had any kind of coherent answer. My suspicion is that when a lot of this nonsense about a border tax is actually addressed, it will simply be seen as that. It's virtually an impossible thing to do.

Mr. Warren Everson: I have a couple of points. I agree with you, of course.

There are at least five or six significant tax reform plans being proffered about Congress right now. Mr. Grassley has one and Mr. Brady has another. Obviously, Mr. Ryan has been out early with his proposals. It's too soon to tell where this is going, but the Americans have a problem. Their tax system only affords the federal government five or six sources of money. They have corporate and individual income tax, payroll tax, estate taxes, and tariffs. There's not a hell of a lot else.

They've already pledged to get rid of the estate tax, which is 4% of gross tax revenue right there. Any significant saving on corporate tax, and some individual tax reductions as well, will put them into a gigantic deficit. They can't bring legislation to the Congress that proposes such a massive deficit, so they have to construct some sort of argument that they will make up the money somewhere else; hence, the word "adjustment" in the border-adjustment tax that Mr. Ryan put forward.

I think there's every chance that they will try to raise revenues at the borders, but I think this is all posturing at this point. I don't think any of the plans that I've seen really make a lot of enduring sense. Yes, you will get a lot of money in the first year when you put a huge tariff in place; then there's nothing in the second year. How is that going to affect them? How fast can Americans repatriate money, build new facilities, and drive up the payroll tax revenues for the government? This is a very tricky situation for them.

I don't want to waste your time, but during this administration's mandate, I think there will be some push-back from Americans, because protectionism is very expensive. It's expensive to the producers. They are trying to export their products. They have to use higher cost inputs and it's expensive for the consumer.

At a certain point, probably at some annual meeting of some megacorporation, I do think that investors are going to stand up and ask, why exactly are we moving the facility into a high-wage jurisdiction when we were in a low-wage jurisdiction and still getting a very fine product? I don't think they're going to be immune to that debate.

Hon. John McKay: By the way, I just want to agree with Mr. Allison, as far as the utility of joint business-political collaboration goes.

The Chair: Thank you, Mr. McKay. We'll go to Madam Laverdière, *s'il vous plaît*.

[Translation]

Ms. Hélène Laverdière: Thank you, Mr. Chair.

Mr. Everson, thank you for your presentation, and also for your humour.

I want to make a quick comment on the border adjustment tax. I was in Washington two or three weeks ago, and a former economic advisor to Ronald Reagan explained that it was the same thing as a value-added tax, which seemed a bit questionable. In any case, we'll see what happens.

In your presentation, you mentioned the campaign you want to carry out in the United States. I know we have an idea of what the campaign involves, but I want more details on what you're planning exactly.

• (1020)

[English]

Mr. Warren Everson: I don't want to oversell our effectiveness so far. I think we're just trying to spool ourselves up a little bit. What we actually want to do is to talk to U.S. legislators in the presence of their own constituents about the relationship we have and the prosperity it has generated.

I think that's the most effective way to send them back to Washington, with at least caution in their minds about actions that would be bad for Canada.

In cooperation with the government, we plan to pick different regions of the country and research the business relationships. I think Americans and Canadians are sometimes not aware of how dense the relationships are and how important they are. In Texas, there are 180,000 people whose jobs are connected to Canadian businesses. I would imagine 179,000 of them have no idea.

Our thought was to send at least our president, who has a fairly good profile, and some other Canadian business leaders and then discuss with the federal government here whether or not including Canadian politicians would be advantageous, on the theory that politicians may bring out local politicians. We would then just try to make the case in as friendly a fashion as possible, but with some warning.

Minister Freeland mentioned to Mr. Ryan that his state produced \$1 billion in exports to Canada. Mr. Ryan was visibly affected by that number and said that's pretty good research on her part. As I say, I don't believe Americans are hostile to us. They just need to know how complex the relationship is and how easy it is to hurt themselves by doing something that's negative to Canada.

[Translation]

Ms. Hélène Laverdière: Thank you.

We've heard that the United States has a much harsher attitude at the World Trade Organization. I don't know whether you were able to notice this. I gather that, in a recent statement, the United States representatives even refused to talk about a rule-based system and use other standard phrases.

Can you comment on this?

[English]

Mr. Warren Everson: You know, all my life, Americans have protested against the decisions of the WTO when those go against them. It doesn't stop Americans from going to the WTO to petition against Chinese steel, for example, and fertilizer, and paint, and things like that.

I have a view that is no more educated than anyone else's. I think the negotiating tactic of some of the people in Mr. Trump's administration is pretty clear. They come on very strong. They assert a very bullying tone, and they try to intimidate. Whether that in fact turns out to be their strategy.... I mean, some Americans have talked about pulling out of the WTO. Is that actually something that the country would like to do? It's too soon to tell.

I will make the point again that it's not obvious that the administration is going to lead Congress very effectively. I think it's going to be a much more chaotic environment. What the administration may wish to do is not necessarily what Congress will wish to do. It's hard to tell.

The Chair: I'm going to go back to Mr. Kent, because we cut his group a little short.

We were thinking there was going to be a vote, but there isn't, so I'm going to go to Mr. Kent and then over to Mr. Fragiskatos.

Hon. Peter Kent: That's very gracious, Chair. Thank you.

Mr. Everson, I just have one question. It has to do with the border import tax, the Republicans' "better way" agenda, which seems to mean different things to different Republicans, depending on how close their state is to the Canadian border.

I'm wondering what your messaging is with regard to this potential largely undefined concept.

Mr. Warren Everson: I don't think we're going to lead with our chin on this. I want to make sure that we understand what the Americans are actually proposing before we start tilting against it.

I think Mrs. Laverdière mentioned that the Americans don't have a VAT. They're one of just a handful of countries in the developed world without one. There seems to be a consensus that they can't have one and that it would be politically impossible, so Mr. Ryan is trying to mimic one by punishing imports and rewarding exports.

Our main message I think is not going to be very complicated. When you put a huge tax on imports, the cost of imports goes way up, and the consumers have to pay. Americans have enjoyed, in our lifetime, and certainly in the last 20 years, an astounding reduction in retail prices, from sweaters to lawn mowers—anything. I think consumers in the United States enjoy that quite a bit. A decision to reverse that and start driving those prices back up is politically very challenging. I think we'll probably end up making that point.

Because we're a major energy supplier, it's a kind of vivid lesson. You can say, well what benefit is it to you to raise the price of oil entering your country, so that at the pumps you have to pay more and every factory needs to pay more for heating? I think that's easy for them to accept.

• (1025)

Hon. Peter Kent: They already have the benefit of the American discount on Canadian petroleum products because of our landlocked nature.

Mr. Warren Everson: And we are, all of us, trying to break that landlock, aren't we?

Hon. Peter Kent: Yes.

Thank you, Mr. Chair.

The Chair: Thank you, Mr. Kent.

We'll go to Mr. Fragiskatos, please.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Mr. Chair.

Thank you for being here today.

You mentioned Mr. Donohue, the president of the U.S. Chamber of Commerce, who was here in February. I want to read a quote: "Let me say right up front that withdrawing from NAFTA would be devastating for the workers, businesses and economies of our... countries...". That's what he said in his speech when he was here.

This is the first meeting we've had on Canada-U.S. relations as part of this study, and I think it makes sense to hear a very general point from you about the importance of NAFTA and free trade in general. It's been almost 30 years since we had a seminal election on that very issue, and now even the NDP is open to the importance of free trade. This is such an important idea for this country's future prosperity. It generates so many jobs.

I want to hear from you about the value of NAFTA. Could you talk about it in terms supply chains and use a particular example, the auto sector, for instance? There are particular goods that have to cross the border a number of times before they're finally put into a finished product. You can use that example, or you can use any example.

Mr. Warren Everson: Above all else, before it was NAFTA, it was the Canada-U.S Free Trade Agreement. That was really the political dialogue that happened. If you recall, NAFTA slid in

without a lot of controversy, whereas the Canada-U.S. Free Trade Agreement, and the election around that, nearly killed me. It was an extremely intense election campaign.

What the countries declared with that agreement was that we have a special relationship; we have the best relationship. No other two countries trade like this, trading as amicably as we do and have such a complete and respectful relationship in education and sports, the faith community, the defence relationship, and all manner of things. That's why I said that Chapter 19—the decision to create a body to take us out of the courts when we have trade disputes—was such an important central gesture, because it said that these two partners ought not to be stuck in the 6th District Court of Appeal, for example, for 11 years on some dispute. We're special partners, so we should have a facilitated system. That's why I think it's so important that we maintain that.

As the economy has evolved, the United States and Canada are jointly a kind of fortress North America—although we don't perhaps see it quite like that. We are jointly making products. In Canada, about 73% of our exports go to the United States, but about 20% of those are onward bound. In other words, we're just feeding into an American supply chain, which is then exporting. Our products are actually ending up in the rest of the world, but they're doing so via the partnership. As Mr. McKay said, there are some cases where Americans are sending their product through for assembly in Canada, to be shipped onward. We are quite significant partners with each other.

I'm not sure the auto sector is my favourite example, but it gets cited a lot because it's so enormous. The biggest manufacturing sector in Canada is not autos; it's actually food. That's where a tremendous amount of our semi-finished product is shipped onward, once it's been married up in the United States. We're actually partners in commerce. We just need to remind them of that.

• (1030)

Mr. Peter Fragiskatos: Thank you very much.

You mentioned twice that millions of American jobs depend on a strong trade relationship with Canada, but most Americans do not realize that. Why do you think that is? Is it a function of Canadian modesty? Have we not told our story well enough since the free trade agreement was put forward by Mr. Mulroney and then completed in the mid-1990s under the Liberals with NAFTA? What exactly is the explanation for that?

Mr. Warren Everson: I don't know if I have any brilliant insights.

Yes, of course, I think Canadians are modest and we're not very big on the landscape. The biggest problem, I suppose, is that we rarely cause any serious problems. I have a sign on my desk that says, "War is God's way of teaching us geography". The only reason anyone pays any attention to anybody else in Washington is that there is either some enormous opportunity, which is rare, or there's some great, big, huge problem that they have to address, and then they pay a lot of attention to it. We never seem to represent either of those things.

I don't know why it is. I don't care why it is. I don't expect that much from our efforts as a nation to talk to the Americans now. I don't think we should be trying for some new Jerusalem. I think we should just remind people where their best self-interests are, and of the usefulness of our relationship on a very pragmatic level.

The Chair: Thank you.

Mr. Ellis.

Mr. Neil Ellis (Bay of Quinte, Lib.): I just want to touch back on the thing you said about opportunity and risk management with Trump administration.

Looking forward, I had a meeting a while back with an international company. Some questions had been asked by fellow MPs about carbon pricing and how the States was maybe turning around on that. The answer from the worldwide company was that it's inevitable, that it's coming. Whether it's now, today or tomorrow, we have to get aboard.

From the speeches I've heard and what I'm hearing today, where do you think those opportunities are? It seems like we're trying to flank here and go this way and that way. I look at it this way: there are opportunities out there. You guys represent businesses. Do you see yourselves taking advantage of these opportunities, whether it's green technology or it's other businesses that can spin off? As business leaders, have you guys had meetings to say okay, on a risk management basis, what can we do to create business and jobs?

Mr. Warren Everson: Sure. Let me take two aspects of that.

The Chamber of Commerce has advocated carbon pricing for six or seven years now. We believe it's appropriate to try to price carbon so that people will use it where they can, and use it less, with the relative costs between carbon and other forms of energy being closer.

However, we're extremely concerned that carbon pricing, which will throw a lot of money into the hands of governments, be immediately recycled back into the economy to protect the competitive position of the companies that are paying those taxes. I'm a bit alarmed about some of the comments being made by the provinces as to how they intend to use the money.

We're not agreeing as a nation to be taxed so governments will have more tax revenue. We're agreeing to be taxed so carbon will become less attractive economically. That can be done if those governments then sign themselves over to a very religious program of making sure that companies retain their competitive situation. Otherwise in the near term we're going to face a very significant disadvantage for investors coming into Canada versus the United States. We have to head that off.

In the longer term, but not really the very long term, I think that technologies that aid people in less emitting energy sources will be extremely attractive. I think Canada, with its investments in innovation now, has an opportunity to steal a march on the United States and be a significant supplier of that. As you mentioned, the national government may be speaking in a particular way, but a lot of different state governments are going the opposite way and are among the world leaders in climate regulation. I think they're seeking markets. There will be markets for these technologies.

I think there is an opportunity there.

Mr. Neil Ellis: Okay. Thank you.

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

The last question goes to Mr. Saini, and then we're going to wrap it up.

•(1035)

Mr. Raj Saini: Thank you very much for your comments.

If you look at the history of Canadian trade, especially with the United States, even in the early 1970s, Mitchell Sharp called for the third option, saying that we should broaden our trade.

As a member of the Chamber of Commerce, looking at the challenges we're facing with the United States, do you think this would probably be the best time to reinvigorate that option of trying to expand our trade and not be beholden to one market?

Mr. Warren Everson: Absolutely. I think governments past and present are doing exactly that. It took us six or seven years to get CETA in place, but as some people have mentioned here, there are probably some significant opportunities for Canada now that we have it.

This government has announced the beginning of a study with China. The Chinese are very excited. We keep hearing from them. They keep approaching us. I think there is a possibility of something quite attractive there. And long before it becomes reality, it will be attractive to investors who are making their investments for the future decade.

Adriana just came back from Japan. We keep urging the Japanese to move quickly with an EPA directly with Canada. The Japanese tend to have a romantic love of the TPP; they keep hoping that it will somehow reappear at their door. Certainly the most attractive market we are not yet doing very well in is Japan.

I think this sort of thing is happening. Those of you who know a lot about softwood lumber will know that when the Americans brought the hammer down, we Canadians found markets for lumber all around the world, to quite a considerable extent. I hope that lesson wasn't lost on people in the United States.

Mr. Raj Saini: Thank you very much.

The Chair: Thank you very much for this opportunity, Mr. Everson and Madam Vega.

I'm almost excited about the fact that we did get this through and didn't have to break it off and go to a vote.

This is a very important study, as has been mentioned. As far as the committee goes, we all are seized in a non-partisan way with the same interest you've presented to us. This is so important to Canada that we don't have time to play politics.

If there is any other information you want to present to the committee, please feel free to send it. We are very interested in where the Canadian Chamber of Commerce is going. Of course, as you know, I sat in the House with Mr. Beatty, so I'm one of the few

who's been around long enough to have met him when he was younger. We were looking forward to seeing him as well.

Again, I encourage you to feel comfortable in reaching out to us, and let us know where the chamber is going.

Mr. Warren Everson: Thank you very much, Mr. Chair.

The Chair: Thank you very much.

Colleagues, we're going to take a couple of minutes and then go in camera. It will take us about five minutes, and we'll be done.

[Proceedings continue in camera]

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