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Chair

Mr. John Cannis

Subcommittee on International Trade, Trade Disputes and Investment of the Standing Committee on Foreign Affairs and International Trade

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● (1540)

[*English*]

The Chair (Mr. John Cannis (Scarborough Centre, Lib.)): I'll call this meeting to order.

Let me apologize for being five minutes late, but I had an emergency call I had to take.

I'll just start by introducing our witnesses and welcoming them to our Subcommittee on International Trade, Trade Disputes, and Investment of the Standing Committee on Foreign Affairs and International Trade.

Colleagues, we have with us today witnesses from the Canadian Chamber of Commerce: Mr. Robert Keyes, vice-president, international division; and Mr. Clifford Sosnow, partner, Blakes, Cassells, and Graydon. Welcome.

We also have with us today, from the Railway Association of Canada, Mr. Chris Jones, director, federal-provincial government liaison; and Mr. Robert Taylor, director, federal government affairs, Canadian Pacific Railway. Gentlemen, welcome to our committee.

I will just say, prior to giving you the floor, that we for sure have to be out of here by no later than 5:15, as we have some important voting that has to take place later on this afternoon.

We'll start with Mr. Keyes. Will you be opening, sir? The floor is yours.

Mr. Robert Keyes (Vice-President, International Division, Canadian Chamber of Commerce): Thank you, Mr. Chairman and members. I'm very pleased to be here this afternoon. As the chair said, I'm accompanied by Cliff Sosnow, from Blakes, Cassells & Graydon. Cliff is also the co-chair of our international committee and very knowledgeable on international issues.

The Canadian Chamber is Canada's largest business organization, and is very much engaged with our importers, our exporters, our investors, and we see real value in focusing on new and emerging markets. We certainly welcome your committee's attention and the government's attention to these possibilities and to the opportunities and challenges they present, and there are both.

Today's topic has many dimensions, but in my opening remarks let me start off with one point, and that's what do emerging markets really mean, the importance of market diversification, the need for us to think about both our offensive and defensive strategies, the connection between success abroad and the support of domestic policy environment, protection of Canadian companies working abroad, and how we achieve a reciprocal playing field?

First a comment on “emerging markets”. In many ways this is misleading descriptor. The markets and the economies of countries like Brazil, China, and India are large, they're dynamic, and they're increasingly sophisticated. If you take various economic measures, such as 2000 GDP adjusted for varying price levels, the economies of China, India, and Brazil are second, fourth, and ninth respectively. Canada is eleventh. My point is that these economies are not emerging; they're big, they're important economic players, and they're entirely different from other markets in Latin America or South Asia, which might more properly be termed to be emerging. Our focus on key markets such as Brazil, India, and China are certainly worthwhile, but we prefer to think of them as strategic markets, and this is the term we use.

Mr. Chairman, we strongly support efforts to diversify the makeup and trade of Canada's activity abroad. Geography and comparative advantages always mean the U.S. is going to loom large in our trading relationship, but reaching out to areas of the world that are growing rapidly and are going to be key economic engines is a good move. But in saying that, our diversification has to be strategic in concentrating our efforts on the key economies of the future. To use a hockey analogy, we have to go where the puck is going to be, not where the puck has been.

Let me also note that it's a good strategic move to reach out as we are now to Korea, to Japan, to the European Union for new types of trade and investment arrangements that go beyond what can be expected from multilateral agreements like the WTO. While multilateral agreements are vital to achieving Canadian trade objectives and to ensuring broadly accepted common denominators, the use of bilateral agreements allows the agreeing partners to zero in on specific issues where it may be more difficult to achieve significant progress on a broad level. These are issues such as foreign investment, regulatory standards, competition policy, border facilitation, or government procurement. There can be real advantages to business from this kind of approach.

As we think about Canada's strategy towards emerging and strategic markets, we have to recognize that the markets we're looking at are not homogeneous. Within Asia, China is different from Korea, as is Japan, as is Singapore, as is Vietnam. Canadian companies will be there for different purposes, to invest, to purchase, to sell, to source, or to manufacture. Large and small companies each have differing needs. As we think about strategies, each of our supporter approaches has to be differentiated, and this means both business and government strategy has to vary accordingly. But we have to make sure that we and government are on the same page so that we can achieve the maximum benefit.

Canadian officials abroad and at home can, and have been, very helpful to business in terms of intelligence, identifying emerging opportunities, intervening with other countries' officials, opening doors, trade finance, and so on. Ministerial missions and visits also make a statement that we are interested in doing business. As a general point, though, we certainly support devoting more resources to these activities, but it must be in a way that complements the efforts and the goals of the business community.

● (1545)

We have to determine which markets are the most strategic ones for Canada, where we can get the best leverage, and which ones offer the opportunity for the best return.

A key part of our strategy has to be to ensure a level playing field. For many companies investment has become as important as trade. Canada itself has more outward investment than inward, and we have a very open economy and economic framework by global standards. While we welcome foreign investment and we need it, Canadian business also seeks reciprocal access for our outward efforts.

To foster these outcomes, we put a high priority on the negotiation of high-quality foreign investment protection agreements, FIPAs, with all of our strategic partners, but especially countries such as China and India. Negotiations on such agreements are in progress with several countries, and we certainly encourage these to come to fruition. Through such agreements we seek to ensure coverage on issues such as investor protection, dispute resolution, people movement, intellectual property, national treatment, local preferences, and so on.

Mr. Chairman, while thinking about our outward stance toward these markets, we must not overlook the fact that some Canadian companies face difficulty in Canada as a result of inward competition, primarily goods from China. It's clear that the competitive playing field is changing rapidly, and for some Canadian companies a new approach to their business operations is going to be necessary as global supply and manufacturing patterns change.

Some of this competition is fair and represents a global realignment as geo-economic balances shift. Others, however, face a flood of cheaper goods, some of which may not represent fair trade or competition. So it's essential that our trade remedy system be responsive and be ready to take on unfair situations quickly. It also means that our own government has to be sensitive to domestic situations and rigorously monitor that our trade and investment partners fully respect their WTO or bilateral commitments.

Mr. Chairman, success abroad starts at home. If Canadian companies are to take maximum advantage of overseas opportunities in no matter what country—developed, developing, or strategic markets—they must start with the right support at home. Our fiscal and regulatory systems must facilitate Canadian competitiveness, and so must our infrastructure. Currently our port and rail systems and borders are at capacity, and if we cannot ensure that they leverage our competitiveness, it hurts both our imports and our exports. Part of having a smart external strategy must involve having smart domestic policies.

I have a quick observation on domestic policy in relation to our exports. When we analyze our current export patterns, resource commodities still dominate a lot of our trade. Services and finished products in various sectors are growing rapidly. They're going to be very important in the future. But resource products of all kinds are still much of our export bread and butter. These are the kinds of products that Canada can supply and that strategic markets want, but at times it seems there's a policy disconnect between the current contribution of resources to our exports and our domestic policy approach to these sectors. For example, in the mining sector our domestic investment in exploration and development has been lagging behind what's required to sustain the level of exports that we can potentially deliver. Resources can be a major comparative advantage for Canada, but we must ensure that we don't undermine the strategic advantage through domestic action. So I encourage the committee in your work to not just look at our strategies for opening doors abroad, but make sure that we have a domestic base of support as well.

My final point, Mr. Chair, concerns this consultation process. As Canada's approach for these strategic markets is developed, the business community wants a consultation process that is transparent, effective, and meaningful for the companies and business sectors affected. Input via the international trade department's website is useful as far as it goes, and we, like many others, have submitted our views, but it's no substitute for direct, candid, and frequent discussion between officials negotiating agreements and developing the strategies and the businesses—the businesses that at the end of the day will be the ones that have to do the business on Canada's behalf. Government's activities are not an end in themselves, but are a good tool to lay the groundwork for business activity.

To summarize, emerging markets may not be the right descriptor for some of the markets of interest. These are strategic and vital markets. They present both opportunities and challenge. The U.S. is always going to be our key market, but strategic diversification of Canadian trade and investment is important.

When encouraging Canada's offensive interests we must be equally sensitive to the competitive pressures that Canadian companies face at home. Success abroad starts from a support of domestic economic and regulatory framework at home. We want to ensure that we negotiate a reciprocal level playing field, including good protection of investors abroad.

● (1550)

Finally, part of developing this good strategy is to make sure we have a sound and transparent consultation process.

Members, we hope these comments are helpful to you in your work. My colleague and I look forward to our discussion to follow. Thank you.

The Chair: Will you be adding anything, Mr. Sosnow?

Mr. Clifford Sosnow (Partner, Blakes, Cassells & Graydon, Canadian Chamber of Commerce): No. I'm here to answer any questions you may have.

The Chair: Thank you very much.

Mr. Jones.

Mr. Chris Jones (Director, Federal/Provincial Government Liaison, Railway Association of Canada): Mr. Chairman, thank you very much for inviting us.

I have with me Mr. Robert Taylor of Canadian Pacific Railway, who is very familiar with infrastructure and capacity issues at his railway.

I'd like to say a brief word about the Railway Association of Canada. Sixty railways are in our membership, including the two class one, CN and CPR, about 45 to 48 short-line railways, four commuter railways, the inter-city passenger VIA, and a number of tourist and excursion operators.

The subject of your inquiry is highly topical. In the rail industry traffic and activity generated by Canadian trade with China and north Asia are challenging existing parameters and business models. In a sense, China cannot be properly regarded as an emerging market but rather as a major established and growing player. I follow the cue that Bob made.

Some key facts: China's GDP grew by 9% in 2003. By 2010 the top 30 cities in China will have a population in excess of 450 million people. Between 1980 and 2002 China's exports of goods and services increased more than 23-fold, reaching $332 billion U.S. in 2002.

Forty percent of Canadian GDP is dependent on trade. This is the highest in the G-8. Rail moves about half of these goods. Canada's port rail complexes are a critical piece of the distribution system. The seamless movement of bulk and container traffic helps to ensure Canadian prosperity.

So what are we seeing? We're seeing substantial growth in rail volumes to the west coast, both outbound and inbound. In 2004 a record 1.66 million TEUs, twenty-foot-equivalent units, moved through the port of Vancouver. Annual growth in container traffic is expected to average about 7% over the next 15 years. The Fraser River port, which is also out there, has set record tonnage figures for the third consecutive year. Rail export movements of coal, lumber, potash, sulphur, and grain are all substantially up. China's nearly insatiable demand for raw materials has been a big factor in the global rise in commodity prices.

Intermodal, which is the movement of containers off ocean-bound vessels or from trucks to rail and so on, is now the fastest-growing and largest line of business in the Canadian rail sector. China is now accounting for about 40% of container volumes in and out of the port of Vancouver. In a typical week at Deltaport, import vessels are off-loading about 100,000 feet of containers at the dock. The railways are addressing these enormous volumes by increasing car supply and the number of trains designed to pick them up.

We do what we can. We've already increased cubic carrying capacity per train. For instance, in 1994 a typical train could carry two 18-foot trailers per car and there were 70 cars per train, whereas in 2004 an intermodal train could carry two 48-foot containers per car, with 125 cars per train. It's also why CN and CPR have announced a series of what are called co-production agreements in the lower mainland and Vancouver to use each other's track and yards to make rail operations more efficient for port of Vancouver traffic.

But new network capacity may ultimately require investments in track expansion. There's only so much we can do to sweat the assets more. Such investments, however, are capital intensive, long term, and non-frangible. By non-frangible I mean not readily or easily broken in nature. Once we've made them, they're hard to pull up. So we normally proceed fairly conservatively.

Rail modernization and capacity expansion should be driven by a reliance on market forces and a mutual alignment of expectations among all players in the supply chain—the shipping lines, the terminal operators, the logistics companies, and the railway companies. Everybody has to take a fairly similar view of what they think demand will be.

From governments we need supportive public policy, a stable regulatory regime, and better CCA rates for our equipment. At the moment rail rolling stock is depreciated at a rate of 15%. It takes us about 20 years to fully write off a locomotive. It takes U.S. railways eight years to write off one of their locomotives. We have also proposed investment tax credits for capital expended on intermodal facilities, a more rapid phase-out of the capital tax, and full cost accounting and user pay on the highway system, which is a mode with which we compete.

Railways place great value on their partnerships with the ports and are eager to ensure that our ports remain competitive gateways in the global context.

● (1555)

The port rail facilities at Montreal and Halifax also carry shipments to our land border crossings at Windsor and Sarnia. This cross-border intermodal trade has also been growing at a rapid rate, and we urge the federal government to look carefully at making investments in these land gateways that will both aid security and facilitate trade.

In conclusion, I can say improving the distorted and productivity impeding nature of the tax regime governing rail will allow industry to make the investments necessary to ensure Canada's shippers, industries, and regions are positioned to profit from the China phenomenon.

Thanks.

The Chair: Thank you, Mr. Jones.

We'll start with Mr. Obhrai.

Mr. Deepak Obhrai (Calgary East, CPC): Thank you, Mr. Chairman.

Thank you for coming and giving us your presentation here.

When we talk about emerging markets, we always seem to focus on China. I just came back from a trade mission to China with the Prime Minister. What I see—and I would like your opinion on this—is that it is us here, the developed world, investing in China and taking advantage of lower costs and all these things. We are investing but we are also the consumers, and therefore everything comes back to us, which is what you just mentioned about our having the capacity. China is doing nothing itself. There are no private businesses in China per se; they're all state monopolies and state businesses out there.

This trade we talk about is something where we are investing and then getting it back, but with the straight enterprises, really, with China's inability to invest outside and become a global player, it's just a consumer player. If the investment doesn't go from this side to that side and it doesn't come back over here, where does China's economy land? You have mentioned the fact that, because of it being the factory of the world, as it is these days called, natural resources are what it is looking for and that's all it's trying to do with investment here.

In contrast, Japan and other countries are investing outside. Japanese companies are players in the global market; Chinese companies are not. So in your analysis, if China carries on along this road for long, where will it end up as a global economic player, or will it just become a backyard for factories? I would be interested in knowing what your chamber's point of view is on that.

It's difficult for me to talk about the railway thing. If they're talking about infrastructure and everything, they can very well present that to the industry committee, telling about whatever they want to.

Then if I look at Brazil and India, I see they have huge private sectors in their own economies that at this stage only address their own local markets, not the outside market.

So as global players we are looking at three different directions going on here, including Russia. I don't see Russia becoming a global player because there's no investment going outwards. It's us taking advantage of that.

In that context, it would be interesting to see how global this economy is going to be and how big it is going to get.

● (1600)

Mr. Robert Keyes: Thank you.

That's an interesting question. China is a very complex set of circumstances. Yes, the Chinese are "consuming" a lot of resources, inputs. They have become a manufacturing platform for items that are again re-exported. Part of the attraction of China for many companies is the ability to take advantage of economies of scale, lower wage rates, and their manufacturing platforms. That's part of the reason for China's rapid growth.

But I think China is also changing itself. It's moving slowly, but in some ways perhaps more quickly than we think. It's moving from an agrarian society to more of a consumer society and is developing a middle class. You only have to look at the growth in automobile consumption, technology goods, and consumer goods in China to recognize that Chinese society is changing rapidly and that the nature of the makeup of companies in China is also changing rapidly.

I was at a presentation last week by Howard Balloch, who is our former Canadian ambassador and who showed us a chart. Now, BCA Research—and I don't know who BCA Research is—showed us the number of state-owned enterprises in 1994 as compared to the number in 2003. I asked a question about whether these companies are becoming truly private in the sense that we think of as truly private, with public companies, shares on stock exchanges, etc.? He said that's what is happening, and it is happening quickly. So I think the nature of China and our thinking on China is certainly moving quickly.

In terms of China reaching out and investing, we've seen China and Minmetals. We've seen Chinese interest in oil sands and Chinese interest in Unocal in the States. So I think China is going to become an investor, and it's going to move from the state-dominated enterprises to being a private sector player that is coming at us in a major way.

Chris, do you want to...?

Mr. Chris Jones: I just wanted to pick up on one of your assertions, that China was not a significant outward investor. In fact, Chinese outward FDI, foreign direct investment stock, was at about $37 billion a year in 2003. As Robert has pointed out, they are investing more aggressively.

● (1605)

Mr. Deepak Obhrai: What about resources?

Mr. Chris Jones: There is a range of different things they're getting into now.

The other point about the nature of the Chinese economy, as I understand it, is that in terms of foreign companies, of Fortune 500 companies, about 400 of those 500 are over there. They're increasingly involved in joint ventures and activities like sourcing. There is a multiplicity of arrangements going on, so it's not quite so clear that China is not getting involved in higher-value-added things. Yes, they do predominate in clothing and furniture, but they're trying to move up the value chain all the time.

Mr. Deepak Obhrai: Do I have time?

The Chair: You have plenty of time. You have three and a half minutes.

Mr. Deepak Obhrai: In December, Parliamentary Secretary Mark Eyking and I went on a Middle East tour to Qatar. I want to focus on Qatar. What we found out was that the Government of Qatar is going to be spending approximately $50 billion on looking for foreign investment and everything, and it was asking for Canadian companies to go there. This is a huge investment that they want to make, and there is huge potential there and a huge market out there. The country is very small. I don't know what they want to do with that. Nevertheless, they're willing to spend a large amount of money out there and are begging to see how many Canadian companies will go there.

I understand the Chinese and the Indian and the Brazilian interests that we have, but we should not forget other countries out there, like Qatar and all these others that are also emerging markets. We should be focused on those countries that are providing opportunities as well. Every time we look at emerging markets, all we talk about is China, India, and Brazil, and the rest of the world doesn't exist. But there's a ton of money out there. Qatar proved that to us. They have a huge amount and are looking for Canadian expertise in medicine, in telecommunications, in infrastructure, and in all kinds of things that we have.

Mr. Robert Keyes: I have no argument.

Mr. Deepak Obhrai: I don't know. You're from the Chamber of Commerce. How do we get this message out that there are others players too that make big money?

Mr. Robert Keyes: Let's go back to our own situation. It has been very easy and very good business for us to concentrate on the United States. We're always going to have a comparative advantage. This is the market that's close to us. We operate on so many common platforms, and there are integrated economies, and so on. So the U.S. market is always going to dominate, but it's also been very easy and convenient for Canadian business.

Going abroad into other markets is certainly more challenging, and business has to see that a return can be made. It's business that does this at the end of the day, not governments. Business has to recognize that there are opportunities there to sell their goods or services, enhance shareholder value, and all the things businesses do. The market makes a judgment on that.

From where we stand, we certainly encourage Canadian companies to look anywhere there is an opportunity.

Mr. Deepak Obhrai: Good.

The Chair: Thank you, Mr. Obhrai.

We'll go to Madame Deschamps.

[*Translation*]

Ms. Johanne Deschamps (Laurentides—Labelle, BQ): Thank you very much, Mr. Chairman.

My comments are directed to Mr. Keyes from the Canadian Chamber of Commerce. I was most interested to hear what you had to say to us today. I'm not sure where to begin, as a number of questions come to mind.

When you talk about resources or services, for example, do you feel the government is doing enough to encourage investors and businesses to invest strategically in these countries? Furthermore, what must we do to encourage emerging countries to invest here in Canada? What does the government need to do to focus on improving its services? Can these services be improved? Should it be organizing more missions and sending more government representatives to these countries? Is there some way for our companies to gain easier access to information, resources, training and programs? Is it easy for companies here to get this information?

These are just a few of the questions I have.

● (1610)

[*English*]

Mr. Robert Keyes: Merci, Madam.

We want to attract in as well as send out and export. It's very important for business here, for communities, and for jobs.

I think there are a number of aspects in terms of an answer to your question. Number one, we have to get the Canadian fundamentals right in terms of our investment climate. Global capital will go wherever there is a return, wherever there is an opportunity, and capital moves around the world so quickly these days. We are in global competition, and we have to make sure we have our fundamentals right in terms of our tax structures, regulatory structure, and infrastructures so companies can come here, perceive opportunities, grow, and invest.

One of the critical issues we have been pointing to over the last three years since 9/11 has been the border. I've had calls from companies in Europe that say, is the border going to be a problem? If I'm looking for a platform for investment and I'd like to come to Canada and use Canada as a platform for NAFTA, is the border going to be an issue? And you point to all the things we are trying to do.

We had a conversation just this morning with the new Australian high commissioner to Canada about Canada-Australia relationships. As you know, Australia and the U.S. have just signed a free trade agreement. He's hearing from Australian companies who are saying they would like to use Canada as a platform to invest in and trade into the United States. The border issues—and Ms. Jennings knows this well—are very critical to us.

So the border, our investment climate, our regulatory climate, and our fiscal climate are part of it.

You asked about resources abroad. It's always useful to have more resources abroad. I was in Australia for three years; we were always looking for trade and the high commission was always looking for more resources, but there are limits.

Now, there's the nature of what our trade commissioners do, what our people abroad do. The Internet has changed things dramatically in terms of information and opportunity. We used to have a number of business councils at the chamber; we basically got out of that business because we could not keep up with the flow of information fast enough; people had so many other opportunities available to them. There's a wealth of information out there, and I think for many companies it's how you sort through it and how you identify yourself in it.

I will make one comment. I was at a round table in Calgary in January with a number of SMEs, people who came in from smaller communities. This was in my capacity as chair of Forum for International Trade Training, which is an organization that provides training on trade issues in community colleges. There was something I'd never thought about. A couple of small exporters said, listen, the government has wonderful information; Strategis and other websites are a wonderful tool if you're located in an urban area with high-speed access, but if you're in a rural area with a low-speed line on a dial-up exchange, you get frustrated and you give up because these sites are so big and so complicated that we can't take the time and don't have the patience to go through it and wait. So here's a government service that is not getting out because we have a constraint in our telecom infrastructure.

Your question has many dimensions, and we all want to do more to ensure not only that do our businesses have the opportunity to pursue things abroad but also that the world can see us and we can tell our story and say come here and invest.

Cliff, did you want to get something in?

● (1615)

Mr. Clifford Sosnow: I think it's an excellent question, an excellent series of questions. We touched on it in our commentary when we were talking about investment agreements and what governments can do about investing abroad, helping companies to invest abroad in these emerging markets like China, Brazil, and India.

I think one of the biggest operations that governments can undertake is to ensure that there is a high-quality legal infrastructure, if I can put it in those terms—“foreign investment protection agreements” are what we call them.

I cannot overemphasize the importance of those agreements in paving the way for businesses to invest in places like Brazil, India, and China, because what those investment agreements do is to provide the government's assurance that when business goes into these markets they will have the legal protections necessary to thrive in those markets.

For example, there are always concerns about loss of intellectual property when they invest abroad, or loss of protection of technology, or protection from unfair expropriation, or that they may be treated in a more discriminatory manner than market companies from China, Brazil, or India in terms of taxes. So what governments can do is provide the legal backstop for companies, to say to them, “We will provide, as we do in Canada, a senior and mature legal structure to ensure that when you go into those markets, you will thrive in those markets.”

One of the issues that business has and that Robert mentioned is the question of transparency. When governments negotiate these treaties, they're contracts, and they set forward the rights and obligations that Canadian companies will have when they go into these markets. So the governments become—you become—trustees for business. We don't participate in the negotiation of those contracts. We are the beneficiaries of the contracts and we live with the contracts that you negotiate on businesses' behalf, but I say this with respect: business has a very hard time understanding what it is that you as our leaders and political masters are actually negotiating in those contracts.

For example, we don't know what standards you're negotiating when you enter into investment treaties or say you want to enter into investment treaties with China, Brazil, or India. As a lawyer, it would not be surprising for me to say to you that the devil is always in the detail.

One of the things I'm picking up on in your question, Madame Deschamps, is how can governments influence companies and stimulate investment in emerging markets? We would encourage the government and you all here today in negotiations with emerging markets to establish high-quality investment agreements in consultation with business people and other stakeholders who have an impact on the negotiations, to ensure that the standards that are negotiated promote and protect business going abroad.

● (1620)

[*Translation*]

Ms. Johanne Deschamps: Merely to satisfy my curiosity, how are current investments in China, India and Brazil protected?

[*English*]

Mr. Clifford Sosnow: It's another very good question.

Canadian companies in India, Brazil, and China are protected by the domestic laws that exist in India, Brazil, and China, and to the extent that the laws in those countries are less than the standards that we would accept here in Canada, it becomes a difficulty.

If you have a company from the United States or from Europe, you have the power of the United States and Europe to help manage political issues that might make it difficult to invest abroad.

Canada, being a middle power, always relies on rules. That's why we are such an important supporter of the WTO and that is why having agreements is so important for Canadian companies.

The Chair: Thank you.

Ms. Jennings.

Hon. Marlene Jennings (Notre-Dame-de-Grâce—Lachine, Lib.): Thank you very much for your presentations, Mr. Keyes, Mr. Jones.

Mr. Keyes, your presentation and the issues that you raise are largely concerned with Canadian companies doing business outside of Canada and what our government can do to ensure, as Mr. Sosnow just mentioned, that our investments, the investments of our companies that decide to go and do business abroad, are actually protected and that we have those agreements, hopefully.

You just mentioned that because we're a middle power we rely on rules. Therefore, it's in the interest of Canada to actually negotiate bilateral agreements, binational agreements, with the highest standards, as you mentioned, and that will in fact encourage more Canadian companies to make the leap to go and do business aboard, particularly in some of those markets where we don't have those agreements possibly and therefore our companies that have gone there have done so at their risk and peril.

Mr. Jones, the issue—

[*Translation*]

or as they say in French, the issue

[*English*]

—that you're discussing is here in Canada. You touched on it a little bit, Mr. Keyes, in terms of attracting foreign direct investment. The issue you are raising is that we have a problem here in Canada for the railway as transportation, lack of infrastructure, a fiscal regime that is not competitive with our major trading partner, a regulatory regime that is not necessarily competitive with our major trading partner, and physical infrastructure that needs to be built on to build new capacity so that we can be more competitive.

I would ask you, Mr. Jones, to explain in a little more detail what the Railway Association of Canada would like to see in terms of changes on the fiscal side, on the regulatory side. You already talked about investments required in the physical infrastructure.

My concern for Canada is that we always talk about how our rate of productivity is lower than that of the United States. I may not be right on this, but I have an inkling that part of this lower productivity is linked to the weaknesses of our physical infrastructure.

I look at Montreal. The Conference Board of Canada has done repeated studies on the loss of productivity because our highway system for trade that's going into the United States from eastern Canada, or is going into the Maritimes or eastern Quebec from western Canada, provinces or regions to the west, means that transported goods have to actually go onto the Island of Montreal because the highways aren't linked up in such a way that they can bypass—there's no ring road.

We at the federal level, Quebec Liberal MPs, have been pushing to get Highway 30 done, the extension done. The federal government has committed the money. The provincial government still hasn't come up with the money. We're talking about hundreds of millions of dollars lost in productivity, in building the economy, etc., because of that.

How much are we losing because we don't have the capacity for intermodal? There's a demand there, and if you had the capacity you could meet the demand and therefore it would increase productivity, so to speak.

● (1625)

Mr. Chris Jones: Before I answer the questions on the fiscal attack side, I want to underscore what you just said—there is a very real threat other west coast port-rail complexes in North America will attract business from Canada if we do not get our act together and make the necessary investments, correct the fiscal regime, and make our port gateways—be they the Vancouver port, Prince Rupert, or other ports—attractive places. We are facing that very genuine and real concern.

I know it is one of the major preoccupations of the Greater Vancouver Gateway Council in Vancouver, the risk that shippers.... We've seen it already, with some potash investments that have gone south of the border. Massive investment has taken place in Los Angeles in the Alameda corridor, which is a huge P3 between the port and the railways.

To get back to the concrete fiscal changes we would like to see, it's undeniable there is a substantial tax burden for the Canadian railways we would like to see addressed. There are two or three things we'd like to see quickly. The first one is for our capital cost allowance rates to move to 30% from the present 15%. We think that would be key. It would allow us to depreciate and write our equipment down more quickly, and thereby replace it with newer, more environmentally sustainable equipment, equipment that's more customized to the demands in the market.

Second, we'd like to see the government match the recent U.S. reduction in their federal excise tax on fuel. In a recent job creation bill just prior to the election, the U.S. government announced they will be completely phasing out their federal excise on diesel fuel. Ours is still at the rate of four cents a litre. It's another factor contributing to our lack of competitiveness.

A more rapid phase-out of the capital tax is another issue. It's down, in credit to the government—it's slated for removal—but if we could get rid of it more quickly, it would help a number of firms. We were pleased, incidentally, to hear the government announce the renewal of the border infrastructure fund and the CSIF. We both think those are good measures.

Finally, just getting some full-cost accounting on the highway system would help the railways quite a bit.

I don't know if my colleague from CPR would like to add anything to that.

Mr. Robert Taylor (Director, Federal Government Affairs, Canadian Pacific Railway, Railway Association of Canada): Yes, there are two very immediate things. I don't know if you've followed recent announcements, but recently the Port of Vancouver—the ports were devolved in the mid-nineties and are entities on their own—had its borrowing limit increased from $200 million to more than $500 million. That's the facilitator for a significant investment. Captain Houston intends to expand the capacity of the Port of Vancouver from 1.4 million TEUs to 5 million TEUs.

Dominic Taddeo, at the Port of Montreal, who I'm sure you know, Madam Jennings, also is in the process of getting his borrowing authority increased, and that is very significant.

Also, we understand that Minister Lapierre is coming forward with new CTA legislation. As a company, CPR—I won't speak for the industry—has been in a kind of regulatory vacuum. A very good piece of legislation in 1996 deregulated the industry somewhat; we're still fairly regulated. That had a five-year review mechanism in it. Minister Collenette brought forward Bill C-26, which didn't get through the full process. Minister Lapierre is bringing forward new legislation.

What I really want to underscore is businesses need stability and certainty. We're looking at an investment of approximately $150 million this year from Calgary to Vancouver; we need to know the rules. These are significant investments.

Also, I want to reinforce Bob's comments about the framework, and I think you've picked up on that. We need good tax policy. We need good transportation policy. We need good regulation. We need good marine policy. I think we need to balance competition and efficiency. For example, in Canada two railways work very well—not 500 railways, not just one railway. Commerce and security are very important. We've seen this in 9/11, and it's a big challenge. Social policy versus economic policy—it's great to have a strong social foundation in the country, but taxes are a cost of doing business and affect productivity. I just wanted to add that.

● (1630)

Hon. Marlene Jennings: Thank you.

Do you have anything to add on issues in terms of attracting...? I think you and Mr. Sosnow covered clearly the aspect of getting Canadian companies to invest and do business outside of the country, but in terms of attracting foreign direct investment into Canada, is there anything you would like to add to what's already been explained or exposed—I don't know how to say it in English—by Mr. Jones and Mr. Taylor?

Mr. Robert Keyes: On Monday afternoon I flew from Victoria over to Vancouver on a float plane, and went right over Deltaport, which I had had the chance to look at the on ground last December. There were two huge container ships there unloading, and when you looked down on that site, it was full, and the lineups of containers ready to head off on trains were full.

When I had the opportunity last July to ride the rails from Vancouver to Calgary, and every 20 to 25 minutes you'd hit a siding, and there was another train waiting to go. We're full up; the pipeline is full.

So if people are going to come here and use Canada as a platform to manufacture and re-export, those goods have to get out. They have to get across the border. So we have to make sure that our infrastructure on both sides of the country is fully capable of supporting this investment. You're very familiar with the border issues and we talked about that. I think the border issue is a strategic investment issue for Canada.

Hon. Marlene Jennings: I agree, but I also believe that our ports are also a strategic investment.

Mr. Robert Keyes: Yes, all this is. That's right.

Hon. Marlene Jennings: If I may, when we talk about a country like China or a country like India being an emerging market, I agree with you, it's not an emerging market. The problem we face—and this is my view—is given the large population there, they're moving, yes, from agrarian to industrialized high tech in that, but they have such a large population that they're outstripping us in terms of post-secondary education, diplomas, graduate diplomas. Even if it's only 1% of their population, that 1% is more than, for instance, our entire population.

So that, in my view, is what makes it so important for our country to position ourselves and take advantage of that lag time that exists before the Chinas and Indias can actually take over to a certain extent. We must take advantage of that lag time, the lead we have, and maintain that lead and if possible go ahead in terms of innovation, in terms of becoming the place for North America for investments into North America, as opposed to the United States or Mexico.

I have nothing against the United States, Miss Stronach notwithstanding, and I have nothing against Mexico.

Mr. Deepak Obhrai: She's not here. Who are you talking to?

Hon. Marlene Jennings: No, but you can take the message back to her.

Mr. Deepak Obhrai: I don't take your messages; take it yourself.

Hon. Marlene Jennings: I think we're uniquely positioned, and we have a short time in which we can actually act to create the conditions that will carry Canada for the next 30 to 50 years, in contrast to what's happening in India and in China. If we don't move now, then in the next 30 to 50 years we are going to be a poor country. We will not have that quality of living that we've come to expect. We will not have a society that's prosperous.

● (1635)

Mr. Robert Keyes: No argument from us.

Hon. Marlene Jennings: Then we can finish the meeting now.

The Chair: No, we're not going to finish the meeting because we still have more questions.

We're going to go to Mr. Eyking.

Mr. Deepak Obhrai: Why?

Hon. Marlene Jennings: I agree with you, Deepak, I agree with you: we've said it all.

The Chair: Mr. Obhrai, the floor is yours.

Mr. Deepak Obhrai: Yes, you come after me.

The Chair: Travelling buddies, are you?

Mr. Deepak Obhrai: When we talk about emerging markets, and let's just go back to your point, Canada historically has been tied with the U.S.A., the largest economy in the world, with ease of travelling, the ease of having the same culture, the same everything. I've been on approximately twenty trade missions, and it's been tough selling Canada overseas when we go. As you said, Canadian businesses find it convenient to go across, which is why—I should take a shot at Marlene—it surprises us when she talks.

The point is, that challenge still remains to us. It's still there. We're trying hard for a diversified role in emerging markets and things like that. But if I look down the road, I don't know how we can.... If the U.S. market expands, we are headed there again. The challenge that always remains for us is how we convince companies that the world is bigger than this thing here. In the Canadian Chamber of Commerce, your international division, you represent businesses on these things. How do we do it?

SMEs, as far as I'm concerned—you had your round table conferences—are not going to go outside U.S.A. markets. It's too tough, too expensive, too everything. Maybe multinationals here and there will go. Will we, down the road...? We're now, I think, at 84%, if I'm not mistaken, or somewhere around that area, with the U.S.A. Will this, in your view, increase more and more, and then will we become tied to one country down the road?

We can all talk about great political stuff, saying let's diversify and let's do these things and let's go and do all sorts of things. It's great talking about all these things and saying we know it's the right policy to do it. We're discussing what you just mentioned, about infrastructure being at capacity because our infrastructure was never built to do international trade; it was built to do trade with the U.S. A., with NAFTA and everything. That's the best infrastructure you have in the world, crossing borders, and that's what, when this committee was organized.... Now, of course, we are facing a little blip here. I would ask, are we going to be, from your perspective, still—I don't want to say “still”, we will always be tied.... Would that increase more and more?

What would be a good discussion from the Chamber of Commerce would be to have a public policy discussion on this issue, to say what to do about it, instead of having all these nice Liberal MPs firing missiles across.

Hon. Marlene Jennings: Come on, Deepak. I know who they're going to be betting on, and it ain't you.

Mr. Deepak Obhrai: What I really want to do is to get the Chamber of Commerce to really get into this thing, to look at it and say let's discuss this. There needs to be a public debate. We are talking in the subcommittee here about emerging markets, but what do you think about a public debate on a bigger scale?

Mr. Robert Keyes: There are a number of points in response. Number one, geography, comparative advantage, integrated economies, etc., mean that the U.S. is always going to dominate. Leverage-wise, what we have to accomplish, just using the arithmetic, in terms of trade in other countries to markedly change our trade pattern is huge, just because of the dominance of the current structure.

I'm more optimistic, perhaps, than you are in terms of our performance in other economies. There are smaller companies that are going to take advantage of what China offers. As China, India, and Brazil change, the ability for them to absorb some of the services our companies have to offer is going to vary dramatically. Services account for 65% or 70%, whatever the number is, of our economy. These are things that are delivered in a very different way. If you look at what companies such as Manulife and Sun Life are doing and how they are expanding in Asia, in the larger players and in the smaller players, you'll see that they are doing very well, and they're carrying the Canadian flag out there. There are smaller companies that are taking advantage of the opportunities in China to move some of their processes and use the Chinese platform, but keep the creation of goods and the R and D here in Canada and to try to move up the trade.

I think we are going to see a shift. But in comparison to the U.S., it always moves slowly. At the end of the day, the market is rolling. Business is proceeding where the opportunities are. Longer-term diversification is important strategically. What you will butt up against, though, is the domestic imperative and shareholders' imperative of showing a return on your investment. Also, our government has to make sure that it negotiates the best deals it can to open the doors for our companies to get in there and to lay the basis for business to go there.

● (1640)

Mr. Clifford Sosnow: I have two points to add. One is in regard to the U.S.

From the chamber's perspective, the U.S. market will always be an extremely important one, and the chamber encourages greater cooperation. When the lights are turned off and the camera people go away and the journalists leave, if you were to poll any number of politicians from any number of countries, they would love to be in our position. So it is a comparative advantage. Let's not lose sight of that, and let's not downplay it.

With respect to emerging markets and the involvement of small and medium-sized enterprises, again the role of government looms large, because small and medium-sized enterprises are dealing with three issues: how to exploit opportunities, how to manage cost, and how to manage risk. If you're dealing with a small or medium-sized company, your margin of error is very small. You can't use a subdivision from another part of your company to subsidize your risk in another venture.

Small and medium-sized enterprises need three things from you. One is information sharing, because it's always important to look before you leap, especially if you're a small company. But there are two more important or equally important areas: harmonization of regulations or mutual recognition of regulations so that when a small company satisfies Canadian regulatory standards in product packaging or labelling, that's also recognized abroad; and lastly—and I come back to this point because it's so important—high-quality agreements to eliminate barriers to trade that elevate cost and risk, simple things like tariff barriers, or what we see in emerging markets, very non-transparent customs procedures.

Small and medium-sized companies are faced with a hundred pounds of papers they have to fill in to get product across, so how do we reduce it to twenty pounds?

Again, if you're a small or medium-sized company, you have thin margins and it's very difficult to absorb that kind of regulatory cost. Where you, as our negotiators and trustees, come in is in negotiating the agreements to reduce that kind of cost. With respect, I would suggest that when those issues are in play, you will see more small and medium-sized entrepreneurship in some of those emerging markets.

● (1645)

The Chair: That was over eleven minutes on your second round.

Mr. Eyking, do you have a question to ask?

Hon. Mark Eyking (Sydney—Victoria, Lib.): Yes, I have a couple of questions, Chair.

The Chair: The floor is yours, as long as you are cognizant to give me a couple of minutes at the end.

Hon. Mark Eyking: First, welcome, gentlemen.

On the government side, we always look forward to your input. It's important before we do any trade agreement or whatever we're doing in these other countries that we have input from the stakeholders.

You people did a fine presentation at our round table on emerging markets. It was well documented and it's not going to go on deaf ears. The thing when you get into.... Let's say we sit down together as government and stakeholders and we agree on an intent on how we should be dealing with a country and what should be in the agreement. Let's use China for an example. We come to an agreement that stakeholders agree with and we see that it's a fit, and you have it with China. I was in China on the last trade mission. You're dealing with over one billion people, and they're just over a decade out of communism. Their local governments and authorities really still have a lot of power in these areas.

Where my first question is going is we have some protection. I guess we could give a heads-up to companies going in by saying beware and watch out for this and that—point out the land mines—and we can give them some financing with EDC. But at the end of the day, these things will pop up, because they have a very different judicial system, if any, in some of these countries, and the problem lies with who do you take to court and what court do you go to?

As a follow-up to all of this, my question is this. Should we be working with Europe and the United States because they're probably having the same challenges in China or India with their products? Should we be on the same page as them and how they're approaching it? Should we be working more through WTO in putting more pressure on these countries and saying this is not the way the western world does business and things like that?

That's my first question. I'll have my second question after we finish this one. My first question would be to Robert and Clifford and then my second question would be later to the transport guys.

Go ahead.

Mr. Robert Keyes: I think you've put your finger on a very important issue in terms of the rule of law and understanding the condition. Peter Berg was at the same session we were at last week, dealing with China, and the point was made, and it was a bit startling, that in China you look at the legal framework per se, and yes, there are issues, but on the other hand they do have some good basic laws. But they're either not enforceable or not enforced. Judicial knowledge is sadly lacking, and the ability of their system to deliver the kinds of results and certainty that we need is sadly lacking. They have huge challenges there, but you look at the rules on paper and they're not bad.

That comes back to what my colleague was saying about rules in those countries and procedures to protect investors. I can't disagree with you on your basic premise, and I think the international community as a whole does watch what we are doing with others. We're in the process of negotiating this FIPA with China, and one of the things we will do is to look at what the recent agreements China did with Germany and Holland have to say. We all follow a lot of the same currents and themes. I think the international community, through multilateral institutions, as well as bilaterally, is coming to these countries with very similar approaches, because business faces similar issues—not the same, but similar.

Cliff, do you have any...?

● (1650)

Mr. Clifford Sosnow: Yes, I have just a couple of points.

To your question asking if we should we working with the European Union and the U.S., I think the answer is we're already doing that.

In China, for example, Germany has negotiated an investment agreement with China, and Canada is using that as a precedent to build its own interests. Interestingly, the U.S. is looking at what Canada is doing, and talking to Canadian negotiators, to ensure they can build on that. The way trade rules work...there's a principle called MFN, meaning once you give to one country, you have to give to every other country. So Canada, the Europeans, and the Americans, in some ways, are all working together to try to elevate the standards. So it's there.

Should we be working with them in any and all circumstances? I think the answer is yes and no; it depends on the identity of interests. That's something you, in consultation with business, determine. There may be certain comparative advantages dealing with mining and resources. We may have certain interests in Canada that may not be shared by the Europeans or by the Americans, so we take it on a sector-by-sector basis. But as a general principle, we say yes, by all means, to the extent there's identity of interest, and so far there seems to be good identity of interest.

With respect to the WTO, that's a much more difficult question. Your government has articulated that the WTO is the pillar of Canada's trade strategy, and the chamber is comfortable with that position and agrees with it—but, as you well know, the WTO moves very slowly. It has become highly politicized; when a business focused on quarterly results is told it may be next year, it may be next year, but we're really not sure, and we're really not sure what kind of standards you're going to get, it becomes a difficult sell. From our perspective, yes, the WTO is an excellent vehicle—one that has enormous potential and has served Canadians and Canadian business well.

Hon. Mark Eyking: Are you saying the bilaterals are going to carry the day?

Mr. Clifford Sosnow: No, we're not saying the bilaterals are going to carry the day; we're saying in the meantime, don't forsake that as part of your strategic thinking in helping Canadian business here and abroad.

Hon. Mark Eyking: The second question deals with transportation. I've been at the Vancouver port, and it's very similar to Long Beach. The whole western coast is lined up, and then there's the whole rail service, and what not.

I read an interesting article about, I think, the Halifax port. They're looking at taking that pressure off. My question will be how viable that is. The Suez Canal—they're talking, of course, going Asia-Suez Canal-Halifax—can take larger ships than the Panamex. Of course there's a week more sailing, but they're probably, by rail, two or three days shorter to get to the eastern seaboard.

If, for instance, you were looking at your strategic thing across.... You're with CP, right?

● (1655)

Mr. Robert Taylor: Yes, I'm with CP.

Mr. Chris Jones: I'm with the Railway Association of Canada.

Hon. Mark Eyking: And they're working together.... How viable would that be, or how likely they could take up a lot of capacity from the west coast, if we did more infrastructure on the east coast together to take that slack, or take up that pressure?

Mr. Chris Jones: I think the shipping lines, in the first instance, are the folks who determine which ports they want to call at—what's in their interest, what helps them get their product to the final consignee as quickly as possible. We have heard about that. CN does service the port of Halifax. Clearly they can move product and material out of Halifax. If that trade and that volume were to grow, I assume they would, over time, match that growth in trade with increased car supply.

The point Gordon Houston, the chairman of the Port of Vancouver, has made in the last few days is there's plenty of business to go around for all ports at the moment. I think for that reason, he doesn't necessarily begrudge the idea that Prince Rupert might eventually get a deep water container port. Literally, we are talking about such an expansion in trade here that as long as it goes to Canadian ports, wherever they are, it's essentially a good thing as far as we're concerned. The railways will do what they can to move that product.

Hon. Mark Eyking: On that, I heard some complaints about CN coming out of Halifax. It might have been because they lost Maersk and people started finger-pointing. But you believe if their business went up 30% or 40% that you could step up to the plate.

Mr. Robert Taylor: There are forest products now going from western Canada through the Panama Canal into the port of Halifax through markets in the northeastern U.S. All of this is really at the core of our business.

What has happened is China has been a huge growth centre, and Vancouver will always be the backbone of that from a Canadian perspective. You have the big U.S. ports—Long Beach, Oakland—that will be the backbone of that from a U.S. perspective. But you have Halifax, Prince Rupert, even maybe some other ports in the Great Lakes—niche ports, I would refer to them—that I think will pick up a portion of this traffic.

What's very important for a port is to have a significant catchment area very close to the port. We have a huge imbalance of containers coming from China, from Asia, into Vancouver, mostly destined for central Canada, Chicago, the midwest. They go empty back to Alberta and B.C. and actually get stopped in B.C. Out of Vancouver we're pretty neutral from an inflow-outflow perspective. The same thing in California, right down the western seaboard.

I really don't see Halifax growing like Vancouver—Vancouver is growing double digits—but I see Halifax coming on more. Montreal is almost growing double digits. Montreal's coming on more. I think Prince Rupert will happen. We hope it won't be directly subsidized by the government, but it will happen. I think what you're seeing is the niche ports taking some of the pressure off, but we're kidding ourselves when you look at the volumes. If you look at Vancouver, Long Beach, Oakland, these are the backbone ports—ten times the volume through Vancouver that you have out of Halifax.

Hon. Mark Eyking: One more small one?

The Chair: A very small one, because then I want to get my small one in before we take off for the vote.

Hon. Mark Eyking: This might sound like a strange question. I don't know where I read it, about Churchill. With all that's happening in the world and global warming and ship design, is it a bit of a pipe dream that we could be using a lot of freight coming into Churchill and maybe going right down on the trains to Chicago and places like that?

Mr. Robert Taylor: What we're talking about here generally today is the explosion of world trade, so I think all of the ports will benefit.

Churchill had a better year this year than it has had for a number of years. Churchill is not a container facility. Churchill is more of a bulk...maybe agrifood-focused. They had a good year. Again, if Churchill was a year-round port, I think it definitely could take some pressure off. It is pretty close from a rail movement perspective, so when you take a product from Manitoba, Churchill is probably 400 miles, 500 miles, whereas for Vancouver you're looking at 2,000 miles.

The bottom line here is there are commercial opportunities that make sense, which a lot of these ports will pick up on, in conjunction with shipping lines. We're really trying to work much closer with ports and shipping lines, so we're all aligned. We all know what we're doing. We know what the growth forecasts are. Last spring and the year before last we really didn't have that alignment, and that's where we got into a lot of service issues. I know for us as a railway these huge post-Panamex ships would just show up, and we couldn't deal with that. You can't deal with 80,000 feet of containers that you don't know are coming. I think with the growth in trade there's opportunity for many of these ports.

● (1700)

The Chair: Thank you, Mr. Eyking.

Gentlemen, if I may just add my comments here, I'll start with growth in trade, as you ended. That's where I agree with my good friend Mr. Obhrai, who says you have to blame the Liberals for tremendous growth over the last ten years; we never thought these numbers would be there. But having said that, I want to also pick up on what Mr. Obhrai said, which was very important in terms of the investments in other countries: are we just looking at these countries as factories, producers bringing back goods to us?

Can you give us an indication of the type of effect these investments by the organizations that are setting up shop in places such as China, for example, have in our country—in job creation, or sustainability of jobs, or additional new jobs, or whether we share technologies, with some area of the job being developed here and technology being shared?

That's one question: does it have that kind of impact? Have we seen any results where an organization invests in Brazil or in China and we're seeing, if not job creation, then sustainability here?

Another question I have is this. You keep on bringing up the border issue as a very strategic investment that needs to be made, if I may quote your words. We agree, and you know it's been looked at at this stage. But I also want to ask you, do you not see it as a joint initiative with our cousins to the south? It's not just a matter of Canada looking at investing at the border crossings—Windsor-Detroit, for example—on which we are moving very proactively. It's not going to resolve the issue or alleviate the problem, if we invest on our side, unless there's a similar investment on the other side. Can you comment on that?

The other question I have, if you could elaborate, is this. You brought in that Canada relies on rules, and that's really what we're noted for. We had other witnesses most recently before our committee who talked about rulings on certain disputes, and then there's the question of compliance. That's why I pick up where my good friend Mr. Eyking said there's a ruling and asked how we enforce it. Is a bilateral way the best way to go with some of these markets?

In closing, when talking about regulatory regimes you said we must minimize, fine-tune, etc. Other witnesses who came before our committee talked about getting goods moved across the border in an expeditious, effective, and efficient way. I know one system we use is the so-called FAST system. We have, let's say, Canadian facilities using the system, and once they get over to the other side there's a blockade on the other side of the border. In other words, they're not on board where we're on board. Our truckers, for example, are then being asked to go through the same process, when in essence they said, get on this system so that we can expeditiously get you across. How do we overcome that?

Those are my questions. I'd like just some quick comments, if you will.

Mr. Robert Keyes: Let me ask, Mr. Chairman, what time your vote is, because we have lots of good questions.

The Chair: We got ten minutes from the other side. There's more, but I had to....

Mr. Robert Keyes: I'll be happy to follow up at any time with you.

Let me start with the border. Certainly it's a joint initiative, and I think that's recognized, and we have been working hand-in-glove with the U.S. to ensure that both sides do what they have to do. But we're just not getting there fast enough—on both sides. Look at Windsor as a classic example, where you're talking about 2013.

● (1705)

The Chair: I've been hearing rumours that the Americans are talking even beyond that.

Mr. Robert Keyes: Well, I haven't heard that.

The Chair: Mr. Jones is nodding his head. He's probably heard the same rumour through the grapevine as I have. So who's further ahead, Canada or the U.S.?

Mr. Robert Keyes: Much of the border agenda was generated by Canada, because this is just so important and strategic to us, and full marks go to our government for having carried the agenda to the U. S., having listened to what Canadian business requires, and having carried the agenda. But we do have to work cooperatively.

We can do all the things we do on this side, but as you say, if those toll booths on the other side aren't staffed and DHS is still crying for resources, then the situation is not fixed. So my short answer is yes, this is "hands across the border", and we have to work together.

The Chair: Mr. Keyes, do you sense that your counterparts in the U.S. are moving as proactively, maybe as aggressively, as the presentations we hear here on our side? Do you sense that? What efforts are your counterparts undertaking to say there's an urgency here, there's a need here? Are they pushing or promoting to their representatives, to their elected officials that they have to move on this?

Mr. Robert Keyes: I think the officials in DHS.... Certainly Mr. Ridge was very strong on this. We have yet to hear from his replacement, but Mr. Ridge certainly recognized the imperative and was doing his best to get resources out of the U.S. system to address these problems. They recognize it, but they face the same kinds of budgetary constraints as everybody else does.

On jobs and technology and sustainability, I think the nature of the Canadian economy and the nature of many of our jobs are going to change. As the global supply changes, the nature of our manufacturing industry is going to change. Companies are going to take advantage of what China has to offer for what China is. When you look at much of China's growth in imports and exports, that's companies that are using the Chinese platform for what it is. But product development, technology development, R and D, the high-end, higher valued stuff are still all being done here, but you outsource the manufacturing component abroad. This is how you enhance your productivity. So are we facing change? Absolutely. We faced change as a result of NAFTA as well. There were many communities that had to shift gears and move up the value chain. That was rough. We have to be prepared for that and help companies, employees, adjust for those sorts of things. There is going to be that kind of change. Should we fear this competition? No, I don't think so. I think we have to embrace it and use it, use it as well as we can.

I lost track of your third question, Mr. Cannis.

The Chair: The third question was primarily on the investments with respect to the border infrastructure with the U.S, actually on the regulatory regime in terms of paperwork. I think we move very aggressively in getting our goods moving across the border. Some of the complaints we've heard are that we have gone on the FAST system, for example, but we're hearing that for our people on this side, once they get over onto the other side, it's as if they have to go through the same process again. What's the point in getting on when the delay has not been eliminated, but minimized to a degree.

If you've heard the same.... Unless we've been misled, those were the comments brought right before this committee. How do we get our partners across the border to cooperate and work with us?

Mr. Clifford Sosnow: By negotiating with countries and building strategic alliances as necessary, using multilateral agreements and bilateral agreements on a case-by-case basis to reduce those barriers. This is one of the key messages we're saying over and over again. In order to get proper exploitation, if I can put it in those terms, of emerging markets, what business is looking for is government as trustee to negotiate—jointly with the U.S. or the Europeans, through multilateral organizations, or bilaterally, in investment agreements—high-quality standards that produce those kinds of issues.

It's all nice and well to say you have a huge market that's growing, but if you can't access the market because the regulatory hurdles in that market are so high, that market just doesn't exist. That's not something that business people can negotiate.

● (1710)

The Chair: Let me say in closing, Mr. Sosnow, I hear what you're saying, but we've invested billions of dollars to create the smart border, the efficient border, etc. I know that this administration on this side has moved in that direction with Minister Manley, continuously. We've heard from our counterparts in the U.S. that they too wish this to be implemented, but we sense from witnesses we've heard that it is just not happening.

That's why, Mr. Keyes, I put the question to you and your counterparts in the U.S. as to what you're hearing and what they're saying. Are they moving as proactively as you are here to tell the representatives, look, let's get moving on this because it affects both of us?

Mr. Robert Keyes: They are doing that.

Mrs. Jennings, you were at Tom Donahue's remarks this afternoon.

The U.S. Chamber carries this. I'm in Washington tomorrow and seeing a bunch of people carrying exactly these messages. We do this continually. As partners in this North American space, we have to do everything we can to minimize that line between us for business purposes. They've done a lot. We've done a lot. We still have problems. Because of the way our system works on FAST and how we've tied some things up with customs self-assessment, our uptake in companies has not been as good as it could be. We have our own process burdens vis-à-vis our own customs procedures. I think we're all diligently working to improve this, but we're not there yet.

Mr. Clifford Sosnow: We're not there yet; and frankly, if you, as negotiators, throw up your hands and say it's just too frustrating and we're not seeing movement, then we've lost the champion that can make the change for us.

The Chair: Feel assured, Mr. Sosnow, that this is not the case, and that's why this committee has undertaken this initiative, to hear from people like you and to get your input. That's why when you say that governments go out to negotiate, my past experience has been that, yes, government spearheads negotiations, but certainly we consult with people, we listen to everybody, as we are doing today, to make sure that we get it right, and get it right the first time. Some of your comments today certainly will help us in putting our report together.

I do want to thank you.

Actually, Mr. Jones, you talked about the infrastructure and the need for domestic support systems. What did you mean exactly by that?

Mr. Chris Jones: I'd like to make a point. At this seminar I was at with Bob Keyes that the Public Policy Forum held on China last week, this point kept coming up again and again. There was a bit of a non-goal in that budget, in that we didn't really deal with the capital cost allowance issue outside of a very narrow and limited class of assets, namely energy saving and electricity transmission.

A number of the exporters, the businessmen who were there, said that this was a spectacular mistake. We're faced with this huge tidal wave of cheaper imports coming in. We need to get our physical plant and infrastructure and equipment geared up and in a state-of-the-art position. To do that we need more rapid capital cost allowance rates. If you get a chance to correct this in the near future, that would be a good move.

The Chair: Thank you very much for that closing comment.

We thank you very much for your presence here today and for your input.

The meeting is now adjourned.

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