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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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● (1535)

[*English*]

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

I'd like to welcome our witnesses to the Subcommittee on International Trade, Trade Disputes and Investment of the Standing Committee on Foreign Affairs and International Trade.

I'll begin by introducing our witnesses today. We have with us, from the C.D. Howe Institute, Danielle Goldfarb, senior policy analyst. We have with us, from Canadian Manufacturers and Exporters, Mr. Jayson Myers, senior vice-president and chief economist. We have with us, as an individual, Mr. David Wheeler, Erivan K. Haub professor of business and sustainability, Schulich School of Business, York University. From Scotiabank, we have Patrick Rooney, senior vice-president, trade, finance, and correspondent banking.

Danielle, we'll start with you, when you're ready. We'll do ten minutes and then move on. Then we'll go on to questioning after that, if that's okay. Great.

If you're looking for the Greek translation, it's not there yet.

Danielle, the floor is yours.

Ms. Danielle Goldfarb (Senior Policy Analyst, C.D. Howe Institute): Good afternoon, and thank you for the opportunity to comment on the government's emerging market strategy.

I'm going to focus on one of the questions asked in the terms of reference—that is, should Canada pursue more free trade agreements?

In my view, most bilateral free trade accords are likely to result only in marginal and temporary gains for Canada, while requiring large amounts of government resources. Such agreements would further complicate the global trading system in which Canada has a large stake, and they could divert Canadian attention from more important priorities. Nevertheless, if policy-makers are determined to pursue free trade agreements, a free trade agreement may be worth considering if Canada can interest a large, emerging market in a genuinely comprehensive accord, as long as policy-makers have realistic expectations of the effects of such agreements, and as long as policy-makers don't lose sight of this country's paramount North American interests.

Why do I issue a cautionary note about free trade accords? The inescapable fact is that this country's economic relationships are overwhelmingly in North America. Current trade and investment with potential partner economies, including China, India, and Brazil, though they're likely understated by our traditional statistics, are minor.

The reality is that most bilateral free trade agreements are not likely to result in large economic gains for Canada, either in terms of trade or investment. Despite previous government attempts to increase Canada's economic linkages outside of the United States, Canadian businesses have not responded, and we cannot be certain that they would respond differently in the event of a new free trade agreement. As I understand it, the public service's own economic modeling does not show important gains from most bilateral free trade agreements.

As well, many of the gains from free trade deals are transitory; they're temporary gains. The temporary advantage of Canada's duty-free access to a particular market will be reduced as soon as that partner country negotiates duty-free access with another nation. And it's going to be further undermined with each successive trade accord. Free trade agreements will not overcome those fundamental factors that are responsible for Canada's declining share of global foreign direct investment. So those fundamental factors will still be in place, even if we put into place free trade agreements.

Because each new free trade agreement creates yet another set of overlapping rules, such accords complicate the international trading system, hindering trade in intermediate goods and detracting from Canada's interests in a simple, predictable trading system. Not only that, but these agreements are unlikely to spur multilateral initiatives in which Canada has a large stake, and they could possibly undermine multilateral initiatives in which Canada has a large interest.

Further, negotiating, signing, and implementing bilateral free trade agreements is extremely resource-intensive relative to the expected economic effects. The whole process risks diverting resources from priority areas.

To take an example from United States, a recent report looked at the U.S. bilateral free trade agreements that were signed in 2003. It found that those agreements account for a very small percentage of total U.S. trade—only 2% or 3%. Yet they consumed almost 40% of the travel budget of the office of the U.S. trade representative and over 10% of that office's staff time, even though three-quarters of the negotiating teams actually came from other parts of the U.S. government.

So it's extremely resource-intensive, and Canada as a country with limited resources needs to be aware of that. So I think Canada should consider only those free trade agreements that have large potential payoffs and that merit this kind of attention.

● (1540)

It may also prove difficult for Canada to find willing partners and successfully conclude an agreement. Why would countries expend their limited negotiating resources to negotiate access to Canada's relatively small market, especially when this country has not been willing to address those factors that blocked previous bilateral accords?

For example, Canada opened up negotiations with the European Free Trade Association in 1998, and negotiations over that free trade agreement have been stalled over Canada's unwillingness to lower a very high ship-building tariff. Why would countries want to negotiate with a country that has shown in the past it's not willing to deal with those types of barriers?

That also applies to, I believe, our negotiations with the central American countries. These are stalled over high textile and apparel tariffs. As well, many large countries are simply not interested in opening up their markets. So Canada is really limited to negotiating with the small list of countries that may have an interest in dealing with it.

On a more positive note, if Canada can, however, find willing partners in important economies, a bilateral agreement might be attractive. It might be attractive because it would put Canada in the enviable position of being one of the only countries in the world with free access to both the United States and another important economic power, although I read in the news today that China and Australia are having preliminary talks towards a free trade deal, and Australia has a free trade agreement with the U.S. If Canada were one of the only countries with access to the two largest economies in the world, that could possibly make Canada a much more attractive place to invest.

If a bilateral free trade agreement is going to advance Canada's interests, it would need to go beyond just trade in goods to embrace services liberalization, it would need to minimize product exemptions, and it would need to minimize restrictive origin requirements, which dilute the gains from free trade. It would need to make sure that a bilateral free trade agreement would reinforce, not undermine, multilateral efforts, and it would need to ensure that such an agreement does not come at the expense of dealing with barriers in the Canada-U.S. economic space.

Before pursuing these options, policy makers need to recognize that the benefit of such access would still be temporary, and it would further complicate the trading system.

In short, rather than pursuing many bilateral free trade deals resulting in marginal gains, Canada would be better off focusing its limited resources in areas likely to yield large payoffs. Under this more positive strategy, the top priority would be ensuring continued secure and predictable access to the U.S. market. That must be the priority. Other priorities would be investing in multilateral efforts that are ultimately going to result in the largest economic gains, and investing in domestic areas, such as education, that allow Canadian companies to be more competitive.

Finally, under this kind of more positive approach, if willing partners are available, and if policy makers have realistic expectations about the possible trade and economic effects of these agreements, and if we can structure a deal that is going to reinforce rather than detract from multilateral efforts, then I think Canada might consider comprehensive free trade agreements with select, important, emerging markets.

Thanks very much for the opportunity to present these views. I'm happy to elaborate on any of them.

● (1545)

The Chair: Thank you, Ms. Goldfarb.

Mr. Myers.

Dr. Jayson Myers (Senior Vice-President and Chief Economist, Canadian Manufacturers and Exporters): Thanks very much.

I'm very pleased to speak on behalf of Canadian Manufacturers and Exporters. CME is Canada's largest and oldest trade association. Our mandate is to improve the competitiveness of Canadian business and to open markets around the world for Canadian goods and services exporters.

Our membership is drawn from all sectors of manufacturing and exporting. Small companies comprise the majority of our members, and together our members account for about 75% of the country's industrial production and 90% of its exports.

For those of you who may not be aware, CME was formed in 1996 as the result of a merger between the Canadian Manufacturers' Association and the Canadian Exporters' Association. The Canadian Manufacturers' Association was established in 1871 for the sole purpose of fighting free trade and protecting Canadian industry. The Canadian Exporters' Association was formed in the 1940s for the sole purpose of opening up Canadian markets around the world. I have to say that by 1996, when two-thirds of Canadian manufacturing production was being exported and 60% of that was being exported to or through the United States, the interests of these two groups became very close indeed. That reflects the changes that have occurred in both the exporting and industrial communities in Canada.

We're in the process, I think, of another period of extensive restructuring in Canadian industry as industry now responds to the challenges of a much more global economy and the opportunities of a global marketplace.

Over the last year, CME has conducted a series of discussions across the country aimed at defining the future vision for manufacturing in Canada. We've talked to CEOs and senior executives from over 900 manufacturing companies across the country. Over 2,500 community leaders have been involved in our discussions, talking about the challenges, the future for Canadian industry, what we have to do to ensure a prosperous future for manufacturing in Canada, and how to begin to address some of the issues the industry has been raising.

As part of that *Manufacturing 20/20* initiative, we not only convened those meetings involving probably 3,000 people altogether, but we tabled a report at a summit here in Ottawa in early February. I've distributed a copy of the executive summary of that report for the committee. The full details of the *Manufacturing 20/20* report—the vision for the future of manufacturing and recommendations—and more detailed reports on workforce capabilities, innovation, and international business development, are all on our website.

I'd like to address today some of the issues and recommendations that we heard across the country, not only from manufacturers, but from exporters in other sectors, especially with respect to emerging industrial economies and international business development. You'll be relieved that I'm not going to read a full report. But I have a number of tables, a number of graphs, that I've included in here from our discussions and from our management-issues survey involving 834 companies in the country to give you some sense, not only of priority markets, but of priority economies for sourcing, priority investment opportunities, and some of the constraints companies face in terms of exporting and investing abroad.

First, I think it's important to understand how business is changing in light of the challenges and opportunities that Canadian companies are facing in international markets. For manufacturers and exporters in Canada, the future really is one of global customers, global networks, global sourcing, and global potential to access the best in technology, the best in knowledge, and the best in skills on a global basis around the world.

● (1550)

Manufacturers are defining a new paradigm for their businesses. They have to, because business strategies have to change in this environment. They're not seeing themselves as businesses that succeed by producing things, getting them out the door, and trying to sell them to customers. Rather, they see themselves as businesses that provide solutions to customers. This includes service as well. This is where value is really being created. The value is not being generated simply by transforming raw materials into products, but in capturing knowledge and then adapting it in a series of services in design, engineering, product development, testing, and financing.

The business of manufacturing no longer takes place within individual companies. It spans a number of supply chains, value chains, and business networks. It's these supply chains and business networks that are competing today, and they're competing on a global basis. This is no longer a local or a national business; it's a global enterprise. The competition comes from around the market. Competitors are active in our own domestic market as well as in our export markets. Market opportunities are global. Companies are sourcing materials, components, finished products, services, knowledge, skills, technology, and capital from around the world. We're competing for those assets. They're competing for investment and product mandates on a worldwide basis. They're operating around the world. Those value chains and business networks now span the world, and that's where the competition is taking place.

These sweeping structural changes in manufacturing are requiring us to think in new ways about our international business development strategies. Businesses should no longer see their export activities as simply a process of producing goods or services and then selling them to customers in foreign markets. Today export success is based on providing international customers with integrated solutions that combine the new technologies, customized functionality, services, and finances that their customers need around the world. This has to be done very rapidly and at competitive prices. Trade is no longer simply a matter of buying and selling products and services and exchanging them from one country to another. It's become a complex and multilateral system based on value chains and business networks in which sales and sourcing activities occur on a global basis.

I was told the other day that a piece of aluminum crosses the Canada-U.S. border five times before it makes its way to the consumer. A piece of copper in a car destined for a Canadian consumer may cross the border up to 15 times before it ends up in a car in someone's driveway here. That shows the integration of Canada-U.S. trade.

When I was in Chengdu in Szechuan last year I was told that the biggest-selling car in western China is made in Canada; it's a Canadian car. They're actually the new Chryslers made down in Windsor. The Chinese knew this was a Canadian car, but our trade statistics show that we export this to the United States, and we don't count it as a car that Canada exports to China.

The supply chains and business networks out there are not necessarily bilateral any longer. Canadian companies or manufacturers are partnering with manufacturers in China, engineers in India, designers and engineers in Europe, financiers in Europe and the United States, all to make product and to sell that product into markets around the world—American markets, Canadian markets, European, wherever customers will buy the product.

So we have to think of this as a global enterprise today, not simply in terms of bilateral trade. Business is no longer about producing things and trading things. Business is about operating on a global basis. We have to look at meeting the needs of customers on a global basis, sourcing product and services, technology and knowledge, expanding in product development activities, engineering and design activities, controlling technologies and international property—it's the capture of knowledge that's so important today—accessing capital, providing customer service and financing, collaborating in innovative research and development projects, and partnering with other businesses, all on a global basis.

That's what the future of international business is going to be about, and that's where I think the focus of the government strategy and the Canadian public has to be. That's certainly where the focus of Canadian industry and Canadian business is today.

● (1555)

I've included some graphs in here. I won't go through them all. It's just to show you, though, that a majority of manufacturers in the country—834 responded to our survey, so you have a pretty good statistical sample from that—see their major market today as a global market or a North American market, and no longer as a local market or Canadian market.

The graphs show where companies see their major market opportunities, where they see their major sourcing activities. The United States, Europe, Mexico, Japan, and China figure pretty heavily in both. It shows where Canadian companies are looking to invest.

I think this type of analysis is extremely important, because it doesn't look at the volume of trade or the volume of investment; it looks at the number of companies that are involved in these markets. So we're covering here the companies that have one to ten employees as well as our major companies, of course, that are world leaders in global business. It shows you some of the interest the companies are expressing in terms of finding foreign partners for everything from manufacturing joint ventures to joint design and research activity to licensing technologies, after-sales service, and finding agents and distributors. That's the nature of international business, and the sooner we can think about business in those terms and not simply in terms of exports and imports, the better.

Canadian manufacturers and exporters face a number of challenges. I've included here some tables that summarize the challenges we found, again, in the analysis we conducted last year, internal capacity constraints on export development as well as external constraints. External constraints are constraints in foreign markets, but first of all, before you export there are a lot of capacity constraints that companies face themselves. These include everything from obtaining the right financing, not necessarily export financing, but the appropriate financing to finance business growth, scale-up, and product development and innovation, all the way through to finding the right people in order to manage this process, finding the right engineers, the right design people, and the right type of product.

The biggest problem companies face in Canada in getting a new product in the market is finding customers to buy that product. Well, that problem is magnified by the number of export markets the company is trying to sell that product into.

So there are a lot of internal capacity constraints that small companies, in particular, are facing. There are a lot of external constraints, too, in getting product into the market, and there are a lot of external constraints in terms of impediments on external investment.

Let me sum up.

The Chair: You have only ten minutes. You're two minutes over your ten.

Dr. Jayson Myers: Okay, in two minutes.

The Chair: No, no, not two minutes. You're two minutes over your ten. There will be plenty of time for you to—

Dr. Jayson Myers: Okay, let me just say this. I think if we're looking at developing a business strategy for external markets, we have to be looking at a strategy to increase our competitiveness at home, we have to be ensuring that our export and import regulatory trade rules are effectively enforced, and we have to be looking at strengthening the North American partnership. Then let's look at opening markets—opening investment and ensuring access, and finally, the trade and promotion activities that support it.

The Chair: Thank you very much.

Mr. Wheeler, the floor is yours, sir.

Mr. David Wheeler (Erivan K. Haub Professor of Business and Sustainability, Schulich School of Business, York University, As an Individual): Thank you very much.

Good afternoon, Mr. Chair, members, deputies. Thank you very much for the invitation.

My remarks will be somewhat conversational rather than prepared, and I'll be addressing specifically points two and three of your suggested consultation foci. I guess, because I have a specialty in corporate social responsibility and sustainability, that may be part of what you want to ask questions about.

By way of brief background, I have a career in the water industry —in international development, mostly, through the 1980s. In business, I was on the senior team at Body Shop International for a number of years and am now in academia here in Canada. As has been mentioned by the chair, my role at York University is to run the business and sustainability program. I also run a new research institute at York called the York Institute for Research and Innovation in Sustainability, which unites all ten faculties in the work on sustainable development.

A lot of our current work is looking at the role of the private sector in third world development. When we talk about emerging markets, a lot of our interest goes to the four billion people who are sometimes referred to as the base of the economic pyramid, the people who will go on to being six billion people over the next 20 to 30 years and who clearly represent both a market and a productive force, if they can be engaged in global marketplaces. In that work, we work with people such as the International Finance Corporation —a part of the World Bank—with IDRC, with CIDA, and a range of businesses here in Canada and internationally.

We also do quite a bit of work on more mainstream corporate sustainability and CSR issues, and we've had a number of projects in recent years that may be of specific interest to this committee, including a project looking at branding Canada: how we could promote Canadian goods and services more effectively and have them better known around the world for their intrinsic value, their innovativeness, and so on.

I think I'm going to be echoing some of what Jayson has been saying about the importance of networks. We see this agenda of improving sustainable trade as very much a leadership agenda, but also a network agenda. How can we build social capital and trust in many more places, other than just the United States, where clearly we're doing quite well?

As a relative new Canadian—I've been here six years—I'm pleased to say that my take on Canada and Canadian business is a wholly positive one. I think there is a very strong case to be made for a much more engaged Canada, a much more engaged Canadian business sector globally, on trade in the emerging markets, especially in the markets of the future, the nine billion people who will depend on Canadian businesses for infrastructure, water sanitation, housing, food—you name it. There's a great case to be made there.

But of course, there are also some impediments and I think our colleague from C.D. Howe hinted at this. One of the impediments is the lack of visibility for certain Canadian sectors and certain Canadian industries. We have some great flagship companies. I was just checking yesterday how many of those companies are in a kind of elite group of Dow Jones "sustainable index" companies. These are the companies that perform best economically, socially, and environmentally. We have 13 companies in that index, which is quite an achievement. But It's probably true to say that if you asked most Europeans or most Asians to name you a Canadian company, they would struggle.

● (1600)

They might not get Alcan, even if "can" is in the title—they may get Canada, but who knows? So there's an invisibility issue that has to be addressed, and hence our interest in branding and creating some kind of halo effect.

We do have great flagship companies, and many of those companies are members of the Canadian Manufacturers and Exporters, I'm pleased to say. Also, we have some somewhat more pedestrian companies. Today you may have seen in *The Globe and Mail* the most recent listing of Canada's most respected corporations. One of those is Scotiabank, I'm pleased to note.

A number of those companies are pretty invisible in terms of their activities in what we might call sustainable enterprise, doing business globally in a way that adds economic as well as social and environmental value. There is therefore some opportunity here to energize all of our leading companies, not just those flagship companies we all know and love—the Alcans and Dofascos and Suncors of this world.

I think there are also, in civil society, some challenges in the sense that many of our civil society organizations are very positive and proactive in terms of engaging business and encourage the best of Canadian business internationally, but there are also some that are less than enthusiastic. We've seen what happened to Talisman in Sudan and what's happened to EnCana in Ecuador. This is a huge misunderstanding when these things occur, but it's also a loss to Canada, because it encourages some of our leading companies to retreat, to not go to difficult marketplaces but instead to retreat into the domestic markets they feel safer in.

There's a mindset shift we need to think about, in terms of how civil society organizations look at business and how they impact on business. Later on I'll come back to some ideas on how that might be achieved.

It's also worth mentioning that not all of our government institutions are perfectly geared up to support Canadian business on an enterprising and expansionary mission, whether it's sustainable enterprise or regular enterprise. We seem to be in a negative cycle currently, in terms of trust and self-confidence, and there's a bit of an audit culture emerging, where we're always looking for what's going wrong rather than what's going right. I think that government departments could play a full part in addressing that.

Ultimately, enterprise is a creative act. It's an act of innovation. It's not about following rules and guidelines and codes of conduct, although they can be important. But sometimes we get the balance wrong, and the emphasis flips from innovation, trade, and making good business in the world, to obeying rules and obeying norms that may or may not be good for business.

There are some immediate opportunities and there are some great things going on here that could be leveraged as part of this committee's deliberations. Firstly, I'd draw attention to the fact that the Canadian people are fully behind sustainable enterprise, enterprise that makes a difference in the world, that carries Canadian values effectively. We did some work a year or so ago and commissioned Environics to look at Canadian attitudes to socially and environmentally responsible business globally. Nine out of ten Canadians would support an initiative on promoting Canada and Canadian businesses as being socially responsible—nine out of ten Canadians would support that.

We have many leading NGOs here who are very proactive on this. Here I would mention just one, CARE Canada. They're doing some very innovative things to work alongside Canadian businesses in Africa and elsewhere, to leverage through what they're doing at the community level with opportunities for local entrepreneurs, but also trading opportunities for Canadian firms.

We have some great research organizations. I understand that one of the interests of the committee is in how to promote research links, and so on. I would pay a particular tribute to IDRC, which is doing some fantastic work in this area, and which recently held a conference on unleashing entrepreneurship, where about a hundred people from around the world, including entrepreneurs, Canadian businesses, and the CME, were represented. They were brought together on a common agenda—that is, how can we improve trade and how can we improve our understanding of how entrepreneurship occurs both in the south, in the developing world, in the emerging markets, and here, because it's about bringing those two things together.

● (1605)

There are, of course, many leading businesses here, not just the ones I've referenced already, but some subsidiaries of international corporations. So we've got some great Canadian companies wanting to do more in this area, but also some subsidiaries of U.S. and European companies. Good examples would be Unilever Canada and DuPont Canada, which are very engaged corporations and very socially responsible corporate organizations that, again, could step up and play more of a flagship role for Canada.

Finally, some of you may be aware that Prime Minister Paul Martin and Ernesto Zedillo wrote a report for the U.N. about a year ago, called *Unleashing Entrepreneurship*. So in a sense, we have that leadership imprimatur there, if we want to leverage it.

In concluding, I think this is a leadership agenda, and it's also a trust-building and social capital and brand-building agenda. I think the need really is for more visible leadership and more self-confidence on the part of politicians and government departments and businesses themselves. I think there's also an opportunity to match some of the really good emerging networks here in Canada with some of the really important emerging networks in the developing and emerging world.

Again, echoing some of Jayson's remarks, we know that where you build networks upon networks, you create value. So the way trade missions currently occur, where you pack as many people on the plane as possible, from all kinds of diverse industries, and send them off to a foreign city for random contacts with random people, is actually not the right way to go. The right way to go is to have sectoral initiatives, where you might take a bunch of oil and executives with some prime ministerial or other leadership to Venezuela, where there are obviously some oil and gas issues going on, and you have dense networks overlapping dense networks. So you have a range of Canadian oil and gas companies with a whole range of local oil and gas companies, and you work the angles there. It's the same thing in banking and other sectors.

● (1610)

The Chair: Could you summarize for us, please?

Mr. David Wheeler: Yes.

That would be one example of a leadership or symbolic act that could be adopted.

Just to return to branding, the other thing we have to address is the invisibility problem. There has to be some kind of strategic initiative to educate the world about what it means to be from a Canadian business, and how that adds value in terms of the way Canadian businesses operate around the world, the ethics they bring into play. Increasingly, in a world of low trust of multinational corporations, we've got a great opportunity here, because we're not necessarily tarred by the same kind of criticisms that some other countries' multinational corporations are tarred by.

I think I'll leave my remarks there, Mr. Chair, and I would be happy to answer any questions.

The Chair: You got your twelve minutes as well, Mr. Wheeler, in all fairness.

Mr. Rooney.

Mr. Patrick Rooney (Senior Vice-President, Trade Finance and Correspondent Banking, Scotiabank): Good afternoon. Thank you for inviting me here this afternoon.

First of all, let me introduce myself. I'm Scotiabank's senior vice-president for trade finance and correspondent banking. I have spent 17 years in Scotiabank's international banking division, including 14 of those offshore in the Caribbean and in Asia. Most recently, I was our vice-president, greater China, based in Hong Kong, running our business for Hong Kong, China, and Taiwan. I returned to Canada about 14 months ago.

I will provide a bit of background on Scotiabank's international presence and experience, just to put some of my comments in context. We are Canada's most international bank. We have about 48,000 employees, 20,000 of whom work outside of Canada. We have 1,800 offices in about 50 countries around the world. Last year, our international banking operations generated about $750 million in net income, which is about 30% of the bank's total. No other Canadian bank, and few banks in the world, have our international presence and network.

In the Caribbean, where we opened our first branch in 1889 in Jamaica, we're the leading bank. We have operations in 25 of the 27 countries in the Caribbean. We're Mexico's fifth-largest commercial bank, and the only Canadian bank in that country. It's also our largest venture outside of Canada.

We're also the largest international bank in Central America, where we operate in four of the seven countries. In South America, we have the largest presence of any Canadian bank. We operate in Venezuela, Chile, and Peru, and we have a rep office in Brazil.

We also have a strong presence throughout Asia, in 10 countries there. For example, we've been in India and China for more than 20 years. These are two markets where we have a keen interest in doing more. In China, for example, we've just completed a joint investment with IFC in a city commercial bank in Xi'an. In India, we're a major participant. We're the number-one gold bank in India, which is the largest gold market in the world. Earlier this year, we've taken a minority stake in the Bank of Punjab, which is the nationally licensed bank in that country.

All of these markets, and many others where we conduct business but don't have a presence, we see as important. They play a fundamental role in our current success, but we are also looking to them for future growth.

Consider Mexico. It's a country of 100 million people, half of them under 22, and a growing middle class. In terms of our industry, it's under-banked. Loans are only 20% of GDP. So it's a market, like India and China, in which we see a lot of potential for future growth.

As to the subcommittee's key areas of interest, the Canadian government has placed special emphasis on the emerging markets of China, Brazil, and India. We see these as important markets for ourselves, but at the same time we believe that Mexico must be at the top of this list for Canada, because of the reasons I just mentioned, and because of its strong links to Canada through NAFTA. Canada must also focus on the emerging markets of the Caribbean, Latin America, and Asia Pacific, which together truly represent some of the greatest future opportunities for Canadian business.

With respect to the key policy instruments that are most useful for business, Scotiabank is very supportive of the government's multi-track approach to trade negotiations—pursuing agreements at the multilateral, regional, and bilateral levels. Certainly, finalizing the WTO development round is essential for advancing Canada's interests. In addition, we should redouble our efforts with the hemispheric partners by pursuing regional agreements in the Americas.

● (1615)

In this region, Canada already has strong ties to Mexico, the Caribbean, and Central America. We also have an existing competitive advantage: we have historical ties to the region and a special role as a respected leading economy that is not the United States; we have played important roles in the developing markets of the region, such as Haiti and the Dominican Republic.

As an aside, the U.S. has already recognized the importance of the Caribbean. It has a third border initiative, which focuses on economics, health, education, law enforcement, and cooperation. This initiative shows that the U.S. sees the Caribbean as part of the growing economic integration that's occurring throughout North, Central, and South America.

As for Canada's bilateral efforts, they too can be an effective means of ultimately reaching multilateral goals, especially in emerging economies. Canada has had some good success so far with bilateral agreements with Chile and Costa Rica; however, as a general rule, Canada should ensure that both investment and financial services trade are captured in all our agreements, given their key role in supporting business activity abroad. For example, the agreement with Chile does not capture financial services trade, and the agreement we have with Costa Rica excludes both services and investment.

Another point concerning the bilateral investment treaties is that while they are effective tools to protect Canadian investments and rights abroad, Canada is not a member of the International Centre for Settlement of Investment Disputes—this is a World Bank arm—and as a result, Canadian businesses facing investment disputes abroad cannot take advantage of its tougher enforcement measures.

In terms of the subcommittee's questions on the type of assistance most useful to business and to support Canadian interests abroad, the foreign service is particularly important in emerging markets, where few resources are available to Canadian companies. Many of our staff have mutually supportive relationships with the offices in our embassies and consulates around the world, and certainly in my own experience, when I was in Asia, we spent a lot of time working with the consulates in Hong Kong and the embassy in Beijing and the various trade missions.

Mr. Wheeler mentioned the trade missions. I participated in the large, 600-strong Team Canada, as well as 10 or 12 more focused ones. There are advantages and disadvantages of those, but we see them as being useful also.

Finally, I believe Canada should focus on providing capacity-building and technical assistance in developing nations, which often suffer from weak legal systems and institutions that act as barriers to investment. Programs that send Canadian public and private sector expertise overseas can help build and strengthen local systems and institutions. I know the Bank of Canada, for example, has spent time in Thailand with the regulators there, and in some other markets.

Together, all of these efforts can serve not only to increase trade flows but also to promote corporate social responsibility and good governance, while addressing concerns around global security, corruption, and terrorism.

In closing, I hope the committee will recognize the value of strengthening Canada's ties with emerging markets, particularly in Mexico, Latin America, and the Caribbean, as well as through the Asia Pacific region. I think the three key markets are important, but there are other ones we need to look at as well. I hope you'll also encourage Canadian business to take advantage of the growth opportunities that exist there.

Thank you for your attention.

The Chair: Thank you, Mr. Rooney.

We'll go to Mr. Menzies, please, and we'll do turns of ten minutes.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chairman.

Thank you to all our presenters. Once again, it's most interesting information. We have received an awful lot of information from all sectors, and I personally as a business person find the business perspective most interesting. Those are the people whose comments I respect the most, so I find this quite interesting.

I have a number of different comments I would like to pick up on.

Ms. Goldfarb, you talked a lot about bilaterals and FTAs and about criteria. What do we use for criteria to decide what makes a good free trade agreement, or what would you suggest as the criteria we should use?

Ms. Danielle Goldfarb: Do you want me to answer, or are you going to—

● (1620)

Mr. Ted Menzies: Yes, please. We'll do one question at a time, if we can. I'm sure we're going to run out of time.

Ms. Danielle Goldfarb: As a general response to your question, as you have gathered from my remarks, I would issue a cautionary note about all FTAs: there are some—a lot—of disadvantages to them.

In terms of criteria, I would suggest that we pursue FTAs where the large expense of negotiating and considering those agreements and of finding a willing partner and then implementing the agreements is going to be proportionate to the possible economic effects. So I would suggest that we pursue agreements with important economies, meaning large economies or economies that are very important in terms of global supply chains. The size of the economy and its importance in terms of global supply chains matters.

I would also say that the agreements themselves should be comprehensive. I think a number of people here have mentioned the importance of including services and investment—though such agreements should not exempt a lot of products, because then you would be diluting the possible gains from these types of agreements.

To get into a slightly technical matter, I would also suggest that they need to have simple rules-of-origin requirements. I don't know if the committee has heard about this before, but without getting into all the details, all free trade agreements have to have origin-rule requirements, specifying a set of rules for determining duty-free access. If they're highly restrictive, these rules can dilute the gains from free trade significantly, so while you are eliminating a lot of other tariff and non-tariff barriers, you could, at the same time, actually be diluting what you've just eliminated, by imposing really restrictive rules-of-origin requirements. So I would suggest that we would need simple, minimally restrictive, rules-of-origin requirements.

Also, as I noted earlier, we should not pursue agreements that are going to undermine the multilateral and regional processes in which Canada has a large interest; we should pursue agreements that would reinforce those interests, rather than detract from them.

Thank you.

Mr. Ted Menzies: Thank you.

Mr. Myers, you talked a lot about competitiveness. Do we need to have a prerequisite? Do we need to make sure that we have FIPAs in place, foreign investment protection agreements, before we can do business safely in these countries, or before your members can function safely in these emerging markets?

Dr. Jayson Myers: I don't think you necessarily have to have these in place first in order to have our members succeed, but they certainly help.

I think this gets to some of the points that Danielle and I were raising, that we should be aiming at coming up with an agreement, whether it's a trade agreement or a FIPA, that takes into consideration some of these constraints or impediments to securing access for investment or trade. Canadian companies are active in almost every country around the world, but securing an investment base and the rights of investors and making sure these agreements deal with some of the non-tariff barriers that are becoming more and more important are certainly crucial, as tax agreements are as well. We have a hand tied behind our back in our relationship with the United States, because we don't have agreement on withholding taxes, whereas most of the other trading partners of the United States do have that arrangement.

So I think we have a lot to catch up with, in terms of investment and trade agreements that get to the service and non-tariff barriers, as well as tax agreements.

● (1625)

Mr. Ted Menzies: Intellectual property protection is, I'm sure, another stumbling block that your members would find.

Mr. David Wheeler: There are more industrial castings going into the United States marked “made in Canada” than there are being produced in Canada, and they're all coming in from China. This is happening as the Canada Customs Agency is withdrawing resources to inspection at the border for counterfeit and fraudulently marked product. This is not only potentially damaging to the health and safety of Canadian companies, but it's also damaging our trade relationship with the United States, because the Americans are, of course, very concerned about the integrity of the border relationship. Canada is already on the watch list of USTR in terms of counterfeit product and fraudulently marked product. If we don't do something here to stop that at the border coming into Canada, the Americans are going to do it at the Canadian-U.S. border and it's going to catch a lot of legitimate Canadian commerce.

Mr. Ted Menzies: That's interesting. We hadn't heard that comment before.

Mr. Wheeler, I picked up on your comment about pedestrian companies. You talked about energizing them. Can you elaborate on that? How do we energize pedestrian companies so they get wheels under them?

Mr. Patrick Rooney: I would say this is a peer pressure thing. I think in certain sectors there has been a general retreat from international engagement. Oil and gas is one example. Therefore, I think it needs people within sectors and across sectors to create symbolic opportunities for CEOs to be seen to lead on export drives. I think that's where political leadership can translate into business leadership and people can be given opportunities to look good internationally. I see this as a facilitation role that government could play. I think it's all about positive signals at that level of business. People don't respond to exhortation; they respond to opportunity. Again, there's no substitute for political leadership on these things. Creating the conditions whereby peer pressure kicks in, within sectors and across sectors, I think the CEO Council has a strong role to play here, potentially, but it needs a lot of encouragement.

Mr. Ted Menzies: Thank you.

Mr. Rooney, I picked up on your International Centre for Settlement of Investment Disputes. That's a new term for me. Why aren't we a member of that?

Mr. Patrick Rooney: I really can't respond to that. It's particularly topical for us now, in our case with Argentina. There is a treaty with Argentina, and the treaty allows two means to arbitration, one of which is the one I just mentioned. The other one is through the UN. But since Canada isn't a member of the international centre, we can't pursue those actions. The remedies are better under that action. There are 30 other countries taking action against Argentina, and they're using the one that Canada is not a party to.

Mr. Ted Menzies: I guess I see that as a place, whether we or the WTO or NAFTA is in..... The weak point that I see is a dispute settlement mechanism for all sorts of challenges or whatever appeals. We seem to come out the loser on a lot of those. Would that be your assumption also?

Mr. Patrick Rooney: I don't have any direct experience, myself, with them, but I think any kind of international arbitration mechanism is very time-consuming, whether it's through courts or arbitration processes; they are complicated. In terms of personal experience, I haven't had any, so I can't respond directly to that.

The Acting Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): You're out of time.

Mr. Paquette, go ahead, please.

● (1630)

[*Translation*]

Mr. Pierre Paquette (Joliette, BQ): Let me first say that your presentations were very informative and quite interesting. I will now try to extract some more juice.

Mr. Rooney, in your presentation, you deplored the fact that our free-trade agreement with Chile does not cover financial services. You then mentioned that our agreement with Costa Rica does not include services or investments. However, the Canada—Costa Rica free trade agreement refers to a foreign investment protection agreement which has been in place since 1998 and which is very similar in content to chapter 11 of NAFTA on investment protection.

What more do you require over and above these foreign investment protection agreements? Aren't they comprehensive enough?

In the case of Costa Rica, we have an investment protection agreement. The Canada—Costa Rica free-trade agreement refers to it. It does not contain a chapter devoted to investment protection but it has a clause referring to this pre-existing agreement.

Do you think there is a weak point that we should correct?

[*English*]

Mr. Patrick Rooney: I think really, the key challenge right now is that the United States and other countries are negotiating their own bilateral agreements. For example, in the case of Chile, they recently concluded an agreement that does include financial services.

As other countries complete their agreements, that puts us behind other nations. In the case of Costa Rica, again, there is some element of protection there, but it doesn't have a lot of teeth to it. I think the key is not to fall behind what other countries are negotiating ahead of us.

[*Translation*]

Mr. Pierre Paquette: I appreciated how you insisted on Mexico because this is a recurring problem. As a matter of fact, Mexico still doesn't exist in Canadian policy. Today, the government issued the commerce section of our international policy statement, which contains a very brief reference to Mexico. I think what you said is important. This is a market that's already covered by an agreement. We should be able to take advantage of it more than we presently do.

My next comment is addressed to the Canadian Manufacturers and Exporters. We have frequent contacts with your Quebec representatives, such as Mr. Huot. I was pleased to note that, in your presentation, you referred to problems related to dumping. We are indeed opening up to other markets but we should not be too naïve.

I don't know whether you have the same impression but it seems to me that the present federal approach is to drop some industries, like textiles and apparel, hoping that other sectors will take over, without consideration for what our competitors may do regarding grants or dumping. We see the same thing in the aeronautical industry, for example. Everyone knows that all over the world, defence spending is very commonly used for aeronautical research. Even Brazil does it.

About the commerce section of the IPS that was issued this morning, I noted a sentence which seems to confirm that the government is ready to drop some industry in order to take advantage of possible developments. On page 17 of the Commerce section, the IPS refers to the free-trade agreement we are presently negotiating with South Korea. It says:

> While free trade would create pressure in certain Canadian sectors, notably shipbuilding, it would also present opportunities for traditional Canadian exports, value-added manufacturing and service sectors such as finance...

I have a question for the Canadian Manufacturers and Exporters. Don't you think some officials of the Department of Industry and the Department of International Trade are being a bit fatalistic when they consider that some industrial sectors are already doomed and are thus not worth any effort to support them?

I have also noted in the budgetary votes that no new funds were added to the Canadian International Trade Tribunal budget at a time when I believe China with be the source of a tremendous number of potential conflicts.

I would like to have your comments on this since you are one of a small number of witnesses who referred in the past few weeks to the principle that charity begins at home.

[*English*]

Dr. Jayson Myers: I think you raise a number of key points that also touch on some of the points that Danielle has made.

Number one, we certainly can't write off any sector of Canadian industry. I think the restructuring we've seen over the last several years has shown that even those sectors like furniture and textiles and clothing that economists said were going to disappear after the NAFTA have become some of the best companies in the world. Peerless Clothing in Montreal is a good example of a company that can take an order and deliver the customized order the next day, because it has been able to improve technology, innovation, and productivity. So number one, we can't write off any sector.

Number two, though, is that industry and companies can compete on a level playing field. If we're talking about fair trade, we have rules of the game. That's why we negotiate trade agreements, and that's why we negotiate under the WTO. We have to make sure that those trade agreements are enforced effectively. Dumping, counterfeit product, fraudulently marked products coming into Canada, and subsidization are all major problems for a number of industries, not only textiles and bicycle manufacturing, but steel and aerospace and some of the higher-value technology-intensive sectors of Canadian industry. These are very important.

I don't have the impression, though, that we have a coordinated strategy to deal with these problems. It is not just China. They are problems that are occurring across developing industrial economies. How do we deal with this in an effective way? How do we streamline and expedite procedures in the Canadian International Trade Tribunal that allow companies to bring these cases forward? And what sort of action is being taken at our borders to prevent this? It hurts the Canadian economy, but it's also hurting our trade relations with the United States, because the Americans are taking action. Unless we coordinate to some extent, it's going to affect our trading relationship with the United States.

On your point about South Korea, I think we have to step back and ask what the point is of negotiating an agreement with South Korea. What are we negotiating here? I think the crucial thing in South Korea is to have in place a strong mechanism to prevent dumping, because in many sectors Korea is a major contributor to that problem. We have to have a strategy in place to get to some of the regulatory rules. What's the point of reducing tariffs in Korea on automotive products when the Korean government requires Korean consumers to undergo a tax audit if they purchase a foreign car? Unless we deal with that problem, simply getting rid of tariffs on imported foreign vehicles is not going to resolve our trade problems.

I think we have to be very smart in the way we see these trade agreements and use the bilateral trade agreements as the cutting edge for where we want to see our multilateral negotiations go.

● (1635)

[*Translation*]

Mr. Pierre Paquette: I don't know if other witnesses would like to comment on this aspect of the question.

It seems—and there were statements to that effect—that the government is willing to drop some sectors hoping that other sectors with a higher value-added will develop. I don't know if you have the same impression.

[*English*]

Mr. David Wheeler: I can address that briefly.

I think the real challenge here is for Canadian companies to improve the level of design and the level of innovation they bring into their products. It's always going to be difficult for us to compete on commodity-type products in the future. We have to find ways of bringing value-added into Canadian products. It's the old adage: Canada has two-by-fours in forestry products; Sweden has IKEA.

Of course we have great furniture companies, but we need a lot more. We need people adding value within Canada from a design perspective. I think that's one of the other strategies to employ in terms of overcoming counterfeiting, because the better your design, the more difficult it is to copy.

So I think there is no excuse for writing off sectors, but equally, there's no excuse for not innovating and bringing in design as much as possible to stay ahead of that kind of counterfeiting.

[*Translation*]

Mr. Pierre Paquette: I fully agree with this view. In the textile or apparel industry, we cannot do what China or India are doing. Indeed, Louis Garneau said the other day he was sure that the Chinese would copy his products within six months. So he'll try in six months to sell new products that the Chinese wouldn't have had time to copy.

I agree with you. At the same time, we need programs to support R&D in industries like textiles and apparel, and also in the furniture industry which has survived the free-trade agreement.

I don't know whether Ms. Goldfarb has anything to add to this.

[*English*]

Ms. Danielle Goldfarb: Thanks for the opportunity to comment as well. I will just add briefly that I agree with Mr. Wheeler's comments about the necessity for Canadian companies to move up the value chain to be able to not compete in the same segments in which their international competitors are doing better, but I would add that when one trades, different countries specialize in different things. As both speakers here have said, that doesn't mean we're going to write off an entire sector; instead, we need to find where we can add value in that sector, and find a special niche market or specialties where we're able to compete successfully. As with all types of trade, some people may lose their jobs, and some short-term adjustment may have to take place. Obviously, we have social safety nets in this country to deal with issues like that. From an economic point of view, over the long term, we would expect to see increased productivity and higher living standards as a result of increasing opportunities to trade.

● (1640)

The Chair: We will go to Mr. Eyking.

Hon. Mark Eyking: Thank you, Mr. Chair, and I'd like to thank everybody for coming here today.

I have three questions to the three different panellists here. The first one I have is on the branding. I think, David, you brought it up, about branding Canada, and Jayson alluded to how difficult it is to really track some of our products now, when you can have an automobile built in Windsor, and it could go right through the other way. I had an interesting conversation with a lobster broker this weekend. I guess we're getting quite a pushback in Boston because of the seal hunt, and the lobster broker was thinking maybe we should sell through Maine so the people in Boston will think they're from Maine—Maine lobster—so sometimes the branding can go either way.

We were in the Arabian companies on a trade mission, and our brand is good. The reason they like us so much is we didn't go into the Iraq war, so it's sometimes very complicated. Wouldn't we have to have a different kind of approach to different products in different countries in how we brand? It's very complicated if we're selling a certain product to China, or what not. Would we brand our lifestyles here on how we manufacture goods? How do we approach this branding?

Mr. David Wheeler: We're working with a guy called Paul Lavoie, who runs Taxi Advertising and Design, on this particular project, as well as lots of other institutions, businesses, academic institutions, and so on. Paul has a good way of characterizing this: the brand is a promise. The brand carries a halo effect for those who are part of it, and this echoes very much for me, based on my former business experience with Body Shop International. We had businesses in 50 countries, obviously including Canada, and you're right—the brand can show up in a slightly different way, a nuanced way, in different cultures and different countries, but the essence should remain the same, and the essence of a Canadian brand should be that it's well done. If it's Canadian, it's going to be high design content, it's got to be well done, and it's got to be socially and environmentally responsible.

That's the kind of essence that would carry us a long way in many international markets, Europe and beyond. I think there's a way to capture the essence without having it absolutely the same in every marketplace, and the beauty of having that kind of halo brand is that just by being associated with being Canadian you get the benefits of that, whereas currently, as I was saying earlier, most of our companies are invisible; they're not part of anyone's brand, so they're struggling against major U.S. and major European companies without any kind of halo effect behind them. There's no doubt we have the capacity, the capability, to project that kind of brand, and to do it effectively, and many Canadian firms can benefit from it if it's Canadian, it's done well, and it's responsible. Also, it's going to be high end, high design, high in innovation, and interesting.

The problem again, to quote Paul on this, is that when most people hear the word "Canada", they don't think of anything. There's no image that comes to mind—certainly not innovation, certainly not great leading companies with a fantastic reputation on social responsibility. That's not what comes to mind to people, but it's what we could establish.

Hon. Mark Eyking: If we were going to help companies, we'd almost have to be industry-specific. For instance, I found out we have a lot of duck farmers, and we sell all these ducks to Mexico. You would almost have to let them do their own promotion, partner up with them, because you can't compare selling ducks from Quebec with selling automobiles from Windsor. It'd be a totally different promotion. Individual industries would have to have a different twist on it.

My second question is about the banking. Are there different rules and regulations in Latin America and Asia Pacific from what's here in Canada? Do they have merger rules, minimum deposits? Is the banking in these countries very different?

● (1645)

Mr. Patrick Rooney: It's a very mixed bag. For example, in India, China, and the Dominican Republic, where we have branches, there are some restrictions on our using head-office capital. The regulators there require us to put capital in, which is similar to what we did under the old regulations in Canada.

A more common comparison with Canada would have to do with restrictions on foreign investment. There is a ceiling here of 20%. In India, it's 5%; China is 15% for any single shareholder. So there are some common threads.

There's only one bank in Mexico that's not foreign-owned. It's a very open market there, and this is probably a product of the banking crisis they experienced in the 1990s. So there is a very wide range.

The thing that holds us up most is the market access, the capital. That would be the primary one. In India, for the last several years they've been ratcheting down the requirements. They've been making them tighter. There have been some changes in the regulations.

China's another place where, with WTO accession, they made some commitments to open up the market. They've followed them, but at the same time they've introduced some other controls—restrictions on lending and things that are closing it up at the same time it's opening. So it is a very mixed bag.

Hon. Mark Eyking: So the gist of the WTO talks is that they're trying to get money to flow more freely around the world.

The last question I have is on the international market opportunities. You were talking about quite a drop. What do you mean? You have the United States going down quite a bit. Is that in ten years, five years, what?

Dr. Jayson Myers: This is from our management issue survey. It's a question about whether companies see their markets expanding over the next five years in these markets. So the fact that it's dropping may not mean that they're doing less business or intending to do less business. It could mean that there are fewer companies looking at high growth potential in these markets over the next five years.

Hon. Mark Eyking: For instance, Chrysler would say "We're lucky to maintain our own U.S. spot, but we're going to increase it more in China".

Dr. Jayson Myers: Right.

● (1650)

Hon. Mark Eyking: Overall, does it look like we're going to be expanding internationally quite a bit in the next ten years? Is there an optimism there, or is that the sense?

Dr. Jayson Myers: Yes, I think so.

I think the point here is that the United States and Europe are still going to be major market opportunities, but more companies are seeing more opportunities in some of the markets like China, India, Brazil, and the Middle East, Latin American, and the Caribbean countries. So they're important. Keep in mind, too, that an awful lot of what we sell around the world is being distributed through the United States, so the fact that we do a lot of business with our major trading partner isn't anything out of the ordinary. But what we're seeing here are companies that are seeing other countries outside North America as more of a market opportunity, as well as an opportunity for investment and sourcing.

Hon. Mark Eyking: I'm trying to gauge whether those companies are big or small companies? Are all of them your members?

Dr. Jayson Myers: It's interesting that the companies that see the most opportunity tend to be those with between 200 and 500 people. So they're the growth companies, the mid-size companies with the resources to expand.

I'd be glad to send the committee a full report.

The Chair: With that, we'll go to Mr. Peter Julian.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you, Mr. Chair.

Thanks for your presentations.

I have a question or two for each of you. I'll start with Ms. Goldfarb.

You mentioned that there were no important gains from bilateral free trade agreements, at least in the long term. I'm wondering if the C.D. Howe Institute has done studies of the Canada-Costa Rica, Canada-Israel, and Canada-Chile bilateral agreements, and what your analysis is of them.

Ms. Danielle Goldfarb: Sorry, but I would just like to clarify that I believe I commented that the gains from multilateral trade liberalization were large, but what was the quote about...?

Mr. Peter Julian: You were mentioning bilateral trade agreements, and though I may have the quote wrong, my sense was that you were saying that we have to proceed cautiously, because bilateral trade agreements do not have the same gains as multilateral trade agreements. So my question is regarding the three existing bilateral trade agreements, and whether any studies have been done by the C.D. Howe Institute on the impacts of those agreements.

Ms. Danielle Goldfarb: The C.D. Howe Institute itself has not done studies on those three agreements. The institute has done a lot of work with respect to North America, on the NAFTA and the Canada-U.S. Free Trade Agreement, and continues to do a lot of work in the area of what might happen now. I know there's a security and prosperity initiative that the government just introduced; so what types of things might be needed between Canada and the U.S., and Canada, the U.S., and Mexico? I would say that's where the focus of the institute's work is, and because we're a relatively small institute and the Canada-Chile, Canada-Israel, and Canada-Costa Rica agreements are, I would argue, really marginal agreements, we would not study them. If you look at these in terms of Canadian interests, these agreements are with countries with which Canada has extremely small trade and investment relationships. Our trade and investment relationships with Mexico and the United States are far, far more important, and I would argue that the economies of these emerging markets we're talking about—China, India, and Brazil—are also far more important to Canadian economic interests.

So I would say that I wouldn't expect the gains from those agreements to be significant, but I don't have any studies showing that.

Mr. Peter Julian: I understand. My question was more whether your view was based on comparative data from our existing bilateral agreements or more of a general thrust. My sense now is that your comments were more general in nature.

Ms. Danielle Goldfarb: Yes, they're more general.

I would argue that those agreements also have restrictive rules of origin in place, which dilute even the expected gains from eliminating tariffs. So the gains are already more restricted than what one might get, and we're starting from a base of countries that Canada does not have significant relationships with, because these countries are relatively small economies.

Mr. Peter Julian: Okay, thank you.

Mr. Myers, I noticed in your briefing notes that you mentioned that the current status of Canadian manufacturers and exporters is 18% of Canadian GDP. Comparatively, I'm wondering what that number would have been 20 years ago.

● (1655)

Dr. Jayson Myers: We've actually increased over the last 20 years. It has stayed at around 16% to 18%, which is very different from the United States, where there's been a decline in manufacturing in the percentage of total economic activity and the percentage of total employment.

In Canada, after the free trade agreement came into place, manufacturing throughout the 1990s was one of the fastest growth sectors of the Canadian economy, which means that by outpacing economic growth, the share of the industry has grown over the last 15 years from about 16% to about 20% of GDP. That was at a time when the dollar was dropping in value. I think the big question mark now, of course, is what is going to happen at a dollar that's significantly higher than we've seen over the last 15 years.

Mr. Peter Julian: That evolution, for your association, how would it compare in terms of jobs, both in terms of quality and quantity?

Dr. Jayson Myers: In manufacturing itself, the record was set in July 2003 at slightly over 2.3 million people directly employed in manufacturing. Keep in mind that for every dollar in manufacturing, you've got two dollars in other sectors of the economy, either primary industry or service, that depend on that. You could loosely say that for every one job in manufacturing there are two that depend on it somewhere else in the economy. Manufacturing employment has fallen by about 60,000 since last September, again largely as a result of the last round of dollar appreciation. We're at record levels of employment, and again there's a big question mark about what's coming this year.

Mr. Peter Julian: Do you track in any way what the average salary is of workers within—

Dr. Jayson Myers: The average salary is 26% above the national average, and 95% of the jobs are full-time jobs. So it's a pretty important sector of the economy.

The Chair: These are great questions and answers.

Mr. Peter Julian: Dr. Myers, thank you very much.

Mr. Wheeler, you mentioned the issue of corporate social responsibility. I'm interested particularly in emerging markets, how you see the issue of human rights and emerging markets, and when we're talking about trade generally, how to use trade as a mechanism to increase human rights in countries where that is a serious issue.

Mr. David Wheeler: I said in my opening remarks that I thought that rules, codes, and guidelines had limited value compared to role modelling, best performance, and strong branding. But clearly, when you come to certain regimes, there are legal and non-legal norms that one would want to see respected. There are certain countries where it's very difficult for anyone to trade at the moment because of the abhorrent nature of the regime in charge, and there are some places where we trade anyway, because there's an economic imperative.

These are difficult issues, but again I would go back to the importance of leadership, the importance of thinking about networks and building trust through networks. I think most businesses and most NGOs, indeed, that track the situation in China believe that engagement is the only way to go. It's only through conversations and building understanding that you can seek to improve human rights protection. But clearly, what is human rights in one part of the world is not human rights in another part of the world. So I think there is no—

Mr. Peter Julian: I think there are things we can agree upon that are quite clearly issues of human rights here on the planet.

Mr. David Wheeler: Exactly.

There are certain universal attributes—

● (1700)

Mr. Peter Julian: Forced labour, torture in prison, racial killings.

Mr. David Wheeler: You'll find a lot of agreement on those issues, but not necessarily absolute implementation. But then there are other dimensions of human rights that are more contested. So I do see a role for human rights to be included in trade discussions and trade negotiations, and I see a definite role for withdrawal from marketplaces as a last resort when clearly abuses go beyond a tolerable level.

I also see an ongoing need for engagement and for discussion and dialogue about what it actually means to deliver social value, what it means to deliver in terms of human capital—the protection of workers, whether it's safety or anything else. That's really where Canadian companies have a special role to play, I believe, because if we do make it clear what Canadian companies stand for, and if we demonstrate that it's not antithetical to the creation of value, that in fact you create more value, that you can be more commercially successful by adhering to high standards—in fact setting standards on social and environmental issues—then there's a virtuous cycle to be gained. It's that role modelling that I think Canada and Canadian institutions, particularly business institutions, can use to make a really big contribution in this arena.

Mr. Peter Julian: How much time do I have?

The Chair: Go ahead, sir.

Mr. Peter Julian: Same question over to you, Mr. Rooney.

You talked about infrastructure supporting capacity-building and technical assistance with other countries in the world, and with emerging markets. I'd like to raise the issue of human rights. You talked about corporate social responsibility. How do we address these issues of human rights in our trade and commerce with emerging markets?

Mr. Patrick Rooney: We choose very carefully who we do business with and the markets where we do business. Corporate and social responsibility are part of our core values. That's how we do business. We follow those in every market. We apply the same standard in every market. The reality is, things go on in all places. Even in Canada, there are sweatshops. It's something that you need to get down and manage at the transactional level. You have to investigate. You have to know your markets and make sure that the policies you're following are applied consistently around the world.

Mr. Peter Julian: You're saying that the bank evaluates investments in part through human rights screening and chooses not to go into certain markets as a result?

Mr. Patrick Rooney: I sit on our international credit committee. Large transactions from around the world come in for review and approval in Toronto, and discussions on this point take place all the time. For example, we won't deal with companies making armaments or things that fly and blow up. We apply our policies. We publish a full report on corporate and social responsibilities and we follow our principles.

The Chair: Is that report available? Could you send it to us through the clerk? We'd very much appreciate having a look.

You talked about a dispute mechanism for investments. Could you repeat the organization you referred to? Am I to assume that this organization is instrumental in dispute resolution mechanisms? Do you have any examples of disputes that have been resolved?

Mr. Patrick Rooney: It's part of the World Bank, and it's called the International Centre for Settlement of Investment Disputes, or ICSID. There is a World Bank website, and I can give you a reference to it. Because Canada isn't a party to it, we don't have any experience with it. The only example I could cite is the case of Argentina, where we are pursuing some arbitration action. But there're 30 other foreign companies taking action, and they're all taking action through this set of rules.

The Chair: Why is Canada not a member of the ICSID?

Mr. Patrick Rooney: I'm not sure.

The Chair: We're members of the World Bank, I presume.

Mr. Patrick Rooney: I don't know, really.

● (1705)

The Chair: Let me ask Mr. Myers to just comment. You mentioned, Jayson, that a lot of our manufacturing products are distributed, you said, “through” the United States. Were you referring to “in the United States” or “through the United States” to country A, B, or C? I ask the question only because, as we've been looking at some of these emerging markets, we've heard testimony and responses from other presenters who have expressed concern that Canadian organizations.... We've heard from Chinese-Canadian organizations who are saying: “We want to do business with Canada. They have a kind of branding, quality, etc. But we're getting Canadian goods through source A, B, C”—one of them being the United States.

Can you just comment on that, and why? Is it because we as a policy or as a government need to do something to encourage our being proactive out there, selling our goods directly?

Dr. Jayson Myers: I think more and more companies are selling directly to other countries, but we have longstanding, very well developed distribution mechanisms in the United States, and the nature of a lot of the products produced in Canada is that they are products that are components or parts or a larger product, or they're being sold through distribution channels, both wholesale and retail channels, that are based in the United States but that give Canadian products global reach.

The Chair: That's what I'm driving at, sir, giving Canadian products global reach. Is there some reason here that we cannot in Canada give Canadian products global reach?

Dr. Jayson Myers: That's right. Canadian wholesale and retail channels are not as extensive, first of all, as American or other distribution systems; or the sales are going through other industrial customers, which is a very smart way of getting your product into world markets—partner with a larger company that has that type of global reach.

The Canadian products that are high-tech products—specifically designed, customized products—are products and services where today more and more Canadian companies are selling directly to other countries. But keep in mind, too, that a majority of our manufacturers and exporters are small companies that probably don't have the capacity of some of the large or even mid-size companies in other countries to sell around the world, so the extent to which they can partner gives them access to markets, although we don't necessarily count it through our trade statistics.

The Chair: Thank you very much.

I'd like to thank all of you for being here, and for your input. Certainly it's going to help us put our reports together.

With that, I have to suspend. We're going to go in camera for a couple of minutes right after. Let's say goodbye to our guests as quickly and efficiently as we can, because there's an anticipated vote in the next 15 to 20 minutes, and we have some housekeeping to do.

[*Proceedings continue in camera*]

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