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## **Standing Committee on International Trade**

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**EVIDENCE**

**Wednesday, June 14, 2006**

**Chair**

**Mr. Leon Benoit**

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• (1645)

[English]

**The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)):** Order, please.

Thank you all for coming and for your patience.

Do each of you have a five-minute presentation to give? It looks like it, and I understand that. We will follow the order as listed on the notice here, which is probably the order you're sitting in. We'll start with the Canada Pork International.

Mr. Pomerleau, go ahead, please.

• (1650)

**The Chair:** Thank you very much, Mr. Pomerleau, executive director of Canadian Pork International.

Now to the Canadian Auto Workers Union. Go ahead, Mr. Buckley.

**Mr. Chris Buckley (President, Canadian Auto Workers Union):** Mr. Chair, members of the committee, thank you for taking the opportunity to meet with us today.

My name is Chris Buckley. I'm the president of CAW Local 222 in Oshawa. I'm also the chairperson of the CAW/GM Master Bargaining Committee, representing all GM members in Canada.

Local 222 in Oshawa represents 15,000 auto workers. If you look at the spin-off jobs created, it amounts to 59,000 jobs created in that region because of the auto workers' jobs.

CAW as a whole represents 265,000 members working in 18 different sectors. Our union is very concerned about the impact of a proposed free trade agreement with South Korea.

Before we get into the specific economics of the deal, I want to provide some concrete local context. The GM facility I come from, where my members work, is recognized by independent experts as the highest quality, highest productivity assembly plant in North America. Last week, once again, they were awarded the J.D. Power Gold Plant Quality Award, and *The Harbour Report* says it is one of the most efficient and productive plants in the western hemisphere.

Yet incredibly GM plans to close its number two plant in the city of Oshawa. Why? How do we make sense of that irrational result? Only one thing can explain it: a one-way flood of imported vehicles from offshore auto makers.

Mr. Burney mentioned earlier our large trade surplus with the U.S. in auto products. He didn't mention our huge and growing trade deficit with all other countries.

The deficit reached \$16 billion last year, the biggest ever. Offshore imports take 25% of our market. We sell virtually nothing back to those offshore markets. Currently in the Polish shipyards they're building vessels capable of carrying 6,100 vehicles at once. Four and a half million imports came into our market last year. Last year, 130,000 Korean vehicles entered our market; we exported 400 vehicles into theirs.

Those imports are significantly harming our industry at a moment when we need to be fighting as hard as we can to save Canadian jobs. My members depend on auto jobs to feed their families. Last year, 145,000 manufacturing jobs left Canada.

Now I'd like to pass to Jim Stanford, our CAW economist to consider some of the economic details.

Thank you.

**Dr. Jim Stanford (Chief Economist, Canadian Auto Workers Union):** Thank you.

**The Chair:** Jim, welcome, you have about two and a half minutes.

**Dr. Jim Stanford:** That's a fair split, isn't it? This is how we do it at the bargaining table all the time: half for them, half for us.

I'll just refer to two documents, which were distributed in both languages. This is a presentation that provides some of the economic facts and figures. This is a more formal position statement from the CAW on Korea trade.

Let me just highlight a couple of the key findings. On page 3 of the Powerpoint handout you'll see a breakdown of Canada's current trade relationship with Korea. Our total trade is very unbalanced with Korea right now. We import twice as much as we export. In automotive products, we import 150 times as much as we export.

**Dr. Jim Stanford:** Mr. Burney said earlier that we cannot have a surplus everywhere, or in every sector and with every country. Obviously that's true, but from a policy perspective, you don't want to go out and do things that make your deficits worse; that simply makes no sense in terms of Canadian interests. It is inevitable, given the precariously unbalanced position we're starting from with Korea, that a free trade agreement will make those imbalances even worse.

There are also two slides on pages 4 and 6 of the handout illustrating the growth of our imports from and our exports to Korea over the last decade, and they show how we arrived at that imbalance.

It is particularly evident that since the Korean financial crisis, or the broader Asian financial crisis in 1997, they have turned to exports aggressively to promote their economic recovery, while keeping a very firm cap on imports with a variety of techniques, including macroeconomic policy levers; active management of the exchange rate, which is very different from how we do it in Canada; taxation policies to shift consumer spending away from imported products; and of course various non-tariff barriers.

Our exports to Korea today are smaller than they were in 1997, despite a decade of economic recovery in Korea. There is no evidence whatsoever that a free trade agreement along the lines of the NAFTA model will change that.

In the auto industry, in particular, automotive imports from Korea have accounted for 70% of the growth in Korean imports since 1997. It's not just small vehicles any more. It's important to recognize that the Korean products are significant competitors in at least nine distinct segments of our market—not just compact cars, but mid-size cars of increasing quality, cross-over utilities, and minivans. So the impacts will be felt across a range of products that compete directly with what we make in Canada.

Meanwhile, our automotive exports to Korea, which were never big to start with, have fallen by over 90% since 1997. That is despite Korean tariff reduction. Korean tariffs were at 50% in the eighties; they reduced them to 20% later in the eighties, and then to 8% in 1995, yet this has had no visible impact on our exports to Korea—and neither will a free trade agreement.

Let me just quickly conclude by referring to a couple of Mr. Burney's comments earlier. One is in terms of the rationale for doing this. I've heard this several times, and I heard it from him again today: the main reason to do it is that we haven't done one in a while. With all due respect, we need a better reason to go and negotiate an agreement than the fact that we haven't done one for a while.

In particular, if we look at the record of the bilateral free trade agreements that we have negotiated—since the one with the U.S. in particular—every one of them, other than the U.S. agreement, has led to a much larger increase in our imports from the country involved than in our exports. The worst case is the Chilean free trade agreement. We actually export less to Chile today than we did before we signed a free trade agreement, yet our imports from Chile have more than tripled. If that record is replicated in the Korean case, it would be a disaster for the Canadian auto industry and many other sectors.

• (1655)

**The Chair:** Mr. Stanford, we've gone more than a minute over our time. Certainly these are comments you can make in response to questions, and I am quite sure you will get the questions.

Mr. Haney, from the Canada Beef Export Federation, you have five minutes. Go ahead, please.

**Mr. Ted Haney (President, Canada Beef Export Federation):** Mr. Chair, members, thank you very much for providing the

opportunity for me to speak to you today. The Canada Beef Export Federation is an independent, non-profit industry association representing Canada's cattle producers, beef processors, and key suppliers who are pursuing international markets for our products.

To begin with, the Canada Beef Export Federation fully endorses the pursuit of a free trade agreement between Canada and the Republic of Korea. That said, re-establishment of trade in Canadian processed beef products on at least the same terms and time as American beef must be an absolute requirement of continuing free trade agreement negotiations with that government. All exploratory and ongoing discussions regarding a free trade agreement should be suspended until trade is re-established for all processed beef products from Canada, including boneless beef, bone-in beef, offal products, bones and rendered products, and these derived from all ages of cattle.

Once that has been met, we do have a number of requirements for any resulting agreement, and of course they centre on zeroing of import tariffs for our products in Korea. We now face a 50% import tariff, and we believe that zeroing of import tariffs would give us approximately \$100 million a year of additional export potential for that market.

We also call, of course, for no continuation of tariffs or tariff escalation for value-added beef products. For example, beef jerky and other traditional Korean-manufactured beef products are virtually impossible to sell because of even higher tariffs. We also require that all restrictions on where the live cattle are procured from, or purchased from, by Canadian beef processing facilities must be removed from any bilateral agreement between our two countries. At times we've been restricted in being able to purchase cattle in the United States, which from time to time is valuable for beef processors across Canada to do.

South Korea must commit to provide access to Canadian beef equal to the most preferential basis offered to any other country that is also a member of the World Trade Organization. It ensures that whatever deal we make with Korea we're not leaving anything on the table, and as a most favoured nation partner with South Korea, that is exactly what we demand.

South Korea must commit that their food safety and animal disease as well as labelling standards must be consistent with recognized international standards and not result in additional trade restrictions. Particularly at this time, we're closed due to an unsubstantiated closure to their market because of our case of BSE—and cases of BSE—in Canada.

Looking forward, South Korea must commit to not using animal welfare or environmental standards as a way of restricting or in any way interfering with the free flow of products from our industry to their consumers. While that is not front and centre today, these are issues that are beginning to arise in various markets. This must be stopped in advance of it becoming a problem for us in Korea, through the negotiation process.

Finally, our industry does recommend very real caution in immediately opening the Canadian market to Korean cattle and beef. This is absolutely consistent with our free trade philosophy and policies. We're concerned that South Korea must first control various animal disease problems that they've not been able to control, and for our industry, foot-and-mouth disease is front and centre. They also have various pig-based diseases that are a concern generally for our industry as well.

So our industry has a goal of increasing beef exports to Korea to 50,000 metric tonnes, over \$230 million per year, by the year 2015. If we eliminate tariffs, we'll add another \$100 million in beef sales to that market. In 2002, our exports to South Korea were 17,000 tonnes, approximately \$70 million. South Korea has been closed to us since May 23, 2003, when we diagnosed our first case of BSE.

• (1700)

We would support the Government of Canada initiating trade remedies with South Korea. We both belong to the World Trade Organization and to the World Organisation for Animal Health, or OIE. We would recommend that the Government of Canada initiate mediation and dispute settlement processes within both of these bodies we both belong to in order to clarify the nature of the trade suspension and identify remedies whereby we can return to profitably exporting Canadian beef to an important market, that being the Republic of Korea.

Thank you.

**The Chair:** Thank you, Mr. Haney.

We go now to the Canadian Vehicle Manufacturers' Association and Mr. Nantais, the president. Go ahead, please.

**Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association):** Mr. Chairman, thank you very much, and thank you to all the committee members. It's a pleasure to be before you, and we certainly appreciate the opportunity.

I want to begin by saying that many of the statistics Mr. Stanford has related to you are statistics we fully support as well. I want to add a couple of things to start my presentation. Really it's a reminder that the auto industry in Canada employs about 570,000 people in jobs direct and indirect. In virtually every community across Canada there's a presence of the automotive industry.

That said, I would like to go to my presentation, which I believe you all have, and commence with slide 6, in the interests of time.

While some free trade agreements might open foreign markets to Canadian-built products, this really is not the case at all with the proposed FTA with the Republic of South Korea. We have built our industry on free trade agreements. We believe in free trade, but that free trade must be also fair trade. Right now, in the approach the Canadian government is taking, we do not see any possibility of fair trade in this case. The flow is always in one direction.

We see a direct harm to Canada's auto industry. We had a \$2.6 billion deficit in 2005 with Korea, of which 67% or about \$1.7 billion was purely automotive. We have virtually no market access into Korea for Canadian products because of a series of very complex and constantly changing non-tariff barriers. I'll talk more about that in a minute.

Korean products would gain a 6.1% advantage on the hood of every vehicle they shipped into Canada, which really causes some interesting issues for our dealer networks in Canada. Clearly there would be downstream dealer impacts. We just do not see the Korean FTA opening any markets for Canadian-built products, yet we continue to see expansion of or a need or a want to expand their access to the Canadian market.

On slide 7, it's interesting to note when you look at Korea's performance relative to those of other OECD automotive-producing countries that theirs are the lowest of the whole industrial world. It's important to note that these are not just import penetration rates from our members' global operations; this tracks all vehicles sold in a market, including all of North American-, European-, and Japanese-assembled vehicles, none of which has made any progress into that Korean marketplace.

Slide 8 is another that gives you an indication of the makeup of the Korean market: 98% is entirely domestic; only 2% is from vehicle manufacturers around the world. This lack of market penetration by foreign firms has not been from lack of effort. In fact, Korea's market has over one million vehicle sales annually and as such is an important global market that our members and other manufacturers have attempted to penetrate, with no success.

There has been a history of memoranda of understanding, with the U.S. and Korea trying to knock down these non-tariff barriers. When some progress is made on some, others emerge very quickly. In fact, as was pointed out, we're actually trading less with Korea than we were prior to some of these memoranda of understanding.

This takes us to slide 9, which is really the area of recommended action. Certainly the auto industry thinks—and I might add that CVMA members have this position, but the Canadian Automotive Partnership Council, which includes parts makers, assemblers, and Ontario and Quebec parts makers, all have agreed, including Toyota and Honda—that this is not the right thing to do for Canada's auto industry.

We've put forward a solution we believe would work. That solution is based on what we call a real, bankable, and sustained opening of Korea's automotive market to imports. That's a market access approach. We have a legal opinion that says, contrary to what our negotiators say—that it is not legal—that it is legal within the WTO rules. We plan on sharing it with our negotiators.

We have existing trade solutions under the softwood lumber agreement that provide some direction on how to manage trade of a complex nature, which is what this is. We've suggested and we recommended that a tariff reduction should be delayed until our import penetration into Korea achieves at least an acceptable, sustained threshold. If we can't attain those levels, or we fall back on them, then we need snap-back provisions on the tariff reduction. We would snap back to the 6.1% tariff that would apply to them here in Canada.

In conclusion, Mr. Chairman, I would like to say that Canada should really be focusing limited resources on opening new markets for Canada's most important industries, and markets where greater economic synergies exist. Without a positive income for Canada's largest manufacturing sector, which is the automotive sector, any FTA, when you net it all out, will not have a positive impact for Canada's economy.

• (1705)

In closing, I would just like to say that there was reference made by the last presenters on the economic analysis that was done that was shared with the auto industry. I will assure you that we've requested this analysis several times. We've requested this analysis of the minister himself. We have not received this analysis. We were not consulted on the development of this analysis, and unless we see this analysis, it makes it very difficult to respond to some of the assertions that are being made about the little impact it will have on Canada's automotive industry.

It is very important that we see this, but I find it absolutely incredible that we're out there reconstructing the analysis, refining the analysis, when we're so far down the path on the negotiations.

Mr. Chairman, I'll stop at that point and be pleased to receive any questions.

• (1710)

**The Chair:** Thank you very much.

Now we go to the last witness today, Alanna Koch, from the Canadian Agri-Food Trade Alliance. Go ahead, for five minutes.

**Mrs. Alanna Koch (Vice-President, Canadian Agri-Food Trade Alliance):** Thank you, Mr. Chair.

First of all, I would like to say that we apologize for not having our submission translated and therefore circulated. We had very short notice to appear before your committee today. We would like to apologize and just ask that the clerk please take the opportunity to translate it and ensure that it is circulated to committee members. I would like to say that at the outset.

The Canadian Agri-Food Trade Alliance is a coalition of associations, organizations, and companies representing producers, processors, marketers, and exporters of agricultural and food products as well as companies that supply inputs to producers. As such, CAFTA is the only trade advocacy organization that represents the entire agricultural value chain.

CAFTA's members together do about \$50 billion worth of business annually, providing over 500,000 jobs in Canada. Our members account for over 80% of Canada's agricultural and food exports and for almost 60% of Canada's total farm cash receipts.

While CAFTA's members are highly dependent on international trade, we continue to be forced to compete in a market that is highly distorted by subsidies, prohibitive tariffs, and non-tariff barriers. If our sector is to make a growing contribution to the Canadian economy, we require an international marketplace that is free of these distortions. A more open trading system would result in increased opportunities for Canadian producers, processors, and exporters. Estimates of the benefits of more open trade for Canada and for the world are as high as U.S. \$56 billion annually.

CAFTA's long-term objective is global free trade in agricultural and agrifood products. This will allow Canada's competitive quality food and agricultural producers to capture opportunities worldwide and return the benefits to Canadian producers, processors, and to the economy of Canada. It's important to point out that 91% of Canada's farmers are dependent on the international marketplace, either through prices set internationally or directly as exporters.

The primary focus of CAFTA is on global trade reform and the current round of agriculture negotiations at the World Trade Organization. While we support all efforts to achieve liberalized trade in agriculture, for many of our members, regional and bilateral deals in the absence of effective international trade rules can have limited benefits. Regional and bilateral agreements tend to exclude many sensitive agricultural and food products, with the result that the access deals are not equitable for the entire industry. Regional and bilateral agreements tend only to be market access agreements. They do not address the use of export and trade-distorting subsidies. The international market in agriculture and agrifood is the most distorted of any market. The increased access provided for some products by bilateral agreements forces domestically produced products onto the international market, which, as stated above, is still very distorted by subsidies and access barriers internationally.

Many sectors of our industry will only see real benefits when substantial disciplines and rules are imposed globally on all players in the international market. Therefore, CAFTA supports regional and bilateral market access agreements that build on global trade agreements.

When the international marketplace is more open and fair, bilateral agreements are effective complements. In 2004 Canada exported \$2.25 billion worth of goods to Korea. Agricultural and food products accounted for just over 6% of total exports of goods in 2004. The largest export in 2004 was of wheat. Prior to the BSE crisis, beef was Canada's largest agricultural export to Korea.

Korea remains a very protected market when it comes to trade in agriculture and food products. CAFTA's members, all 15 of them, have a long list of the negative effects of this protected market. This ranges from restricted tariff rate quotas, prohibitive tariffs, differential tariffs, as well as sanitary and phytosanitary issues. These must all be dealt with in the course of a bilateral agreement in order for it to be effective.

The Canadian agricultural production, processing, marketing, and exporting systems are among the most efficient and effective in the world. We have developed and grown, even in an environment where production and trade are distorted by subsidies and tariff and non-tariff barriers. This history, combined with the quality of our products and the efficiency with which we produce them, puts Canada in an excellent position to compete and benefit if disciplines can be enforced on unfair trading practices.

CAFTA strongly believes that the best way to enhance trade with Korea and with the rest of the world is to ensure that international trading nations abide by clear and enforceable global rules. Our primary focus is on global trade reform and the current round of agricultural negotiations at the WTO. Many sectors of our industry will only see real benefits when substantial disciplines and rules are imposed globally on all players in the international market.

•(1715)

CAFTA supports efforts to expand trade with individual countries or blocks of countries through regional free trade agreements, but these efforts must not take resources and expertise away from the global negotiations and must build on and complement international trade negotiations and rules.

Thank you very much for the opportunity to be here today.

**The Chair:** Thank you very much, all of you.

We have taken time from these witnesses; they've taken the time to come. Out of respect, let's carry on for 10 minutes longer than we normally would. That leaves five minutes for each party, and let's stick to the timeframe.

We'll start with Mr. Temelkovski.

**Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.):** Thank you very much, Mr. Chair, and thank you to all the witnesses.

I have two questions. One is to Mr. Haney with regard to the beef.

Last year we travelled to Taiwan. Taiwan has also placed similar restrictions on Canadian beef. I want to get to the bottom of this. What are they looking at when they stop the import of Canadian beef? Is their science different from ours? Is their analysis of the situation different? Or are they simply protecting their market?

**Mr. Ted Haney:** Thank you.

Taiwan has virtually no domestic cattle market to protect. It is regulatory hesitation to move in a direction they know—and international organizations recommend—they should move in. It is a fear of political backlash organized primarily by a very well-funded and well-organized consumer association. They just want to go slowly and quietly.

For Korea, it is more direct protection of their domestic industry. Korea, for example, produces approximately 260,000 metric tonnes of beef, which is about a quarter of what we produce in Canada. They don't want to give that up.

The science is quite clear. The international organizations that we all belong to are quite clear. The risks have been mitigated.

I would say that these two countries are unique, but I can't say that they are. Canada, for example, even today, has import restrictions in place. We do not allow the importation of beef from any country that has had even one case of BSE, irrespective of the steps they've taken to make the product safe—except from the United States, because of a ministerial order, a prohibition order.

So even we haven't moved with confidence, and the Taiwanese were very clear in their submission to us that we're asking them to do something that we haven't done ourselves.

**Mr. Lui Temelkovski:** With respect to the Koreans, the issue is a little bit different; they do produce their own. Would you guess, then, that this is more of a protectionist issue than a science-based analysis?

**Mr. Ted Haney:** It is in part protectionism and in part political concern over negative backlash.

The consumers and producers in Korea have a historical ability to generate great political pressure, very public political pressure, and there is concern among regulators and political leaders with that.

The only way through this, we believe, is by inviting Korea to mediation, inviting them to consider dispute settlement processes within OIE and/or WTO, while at the same time putting a great deal of political pressure on that country to end its discrimination of Canadian beef, particularly when they have now made the announcement that they will re-establish trade with the United States, which by international review has a BSE risk status very similar to Canada's. It is pure discrimination.

**Mr. Lui Temelkovski:** Thank you.

If I could return to the CAW, in terms of trade, 130,000 cars versus 400 is very lopsided.

I've heard that Daewoo is now owned by GM. Did I hear right?

When those vehicles come in, are they considered imports into Canada? If Daewoo or any Korean company opens in the States, and that vehicle then comes into Canada, is that also considered an import from Korea?

•(1720)

**Dr. Jim Stanford:** Any vehicle that comes from offshore, or outside of NAFTA, has to pay a 6.1% tariff under Canada's bound most favoured nation rate. That would include companies that have large operations in Canada, like General Motors. When a company like Hyundai sets up a plant in Alabama, obviously they are able to export that product to Canada without paying a tariff, as long as it meets the NAFTA North American content restrictions, in which 62.5% of the content has to be produced here in order to get tariff-free access.

The important point here, though, is that experience has shown that these investments in the southern part of the U.S. by companies like Hyundai, or the Japanese automakers, are not a replacement for imports from offshore; in fact they are a complement to them. They'll get production coming from Alabama, and that will not in any way reduce the imports coming from offshore.

So I don't think Mr. Burney's earlier point is quite accurate, that they're going to be producing in Alabama anyway so it doesn't matter. Past experience shows that production coming in from Alabama will be on top of the imports continuing to come from South Korea.

**The Chair:** Thank you, Mr. Temelkovski.

We will now go to Mr. André.

I will be vacating the chair, as I have a private member's bill up at 5:30, but I'll ask Mr. Temelkovski to take the chair.

Go ahead, Mr. André

[Translation]

**Mr. Guy André (Berthier—Maskinongé, BQ):** My questions will deal with the auto industry and pork production.

I hear that the auto industry has concerns about a free trade agreement with Korea. Your figures show that we have a trade deficit with Korea in the automobile sector. Right now, this trade is governed by the WTO, since we do not have a free trade agreement with Korea. The result is a huge deficit.

How could this free trade agreement with Korea be more detrimental to the automobile industry down the road? Since we already have a trade deficit in this industry, how could we prevent an even bigger deficit if we sign a free trade agreement with Korea?

I come from the agricultural sector. In the pork production sector, Mr. Pomerleau, you are probably aware of the movements against mega-hog farms.

Will the agreements signed with Korea and other countries to increase our pork exports change the production system in our industry? Will we promote more the creation of big hog farms to increase our production and exports?

Mr. Haney, you are concerned about a free trade agreement with Korea because of sanitary measures. You raised a few questions about that.

Where do we stand right now? I would like to hear your comments.

• (1725)

**Mr. Jacques Pomerleau:** First, the word mega-hog farm has a lot of connotations. In this context, a free trade agreement will not have any impact on our local, regional, provincial, or national regulations. In fact, it is more a matter of having an agreement with the community.

But we should know that the problems the pork industry is having right now are so severe that not only do producers lose money, but packers and all those involved in this industry lose money too. They are losing market shares. This industry is experiencing all kinds of losses.

What we are focussing on is not losing our competitiveness compared with the United States. If we fall behind them, we will have even more serious troubles.

**Mr. Guy André:** Would this agreement help you stay in the market.

**Mr. Jacques Pomerleau:** We should get at least the same conditions they have.

[English]

**Dr. Jim Stanford:** On the auto industry question, Monsieur, I want to clarify first of all that it's not just the auto industry that is concerned. Many manufacturing sectors have expressed their deep concern—aerospace, for example. Korea has a strong export-oriented aerospace sector. I would view that as a downside risk, not an upside risk. And there are several other manufacturing industries with a base in different regions of Canada.

Our current deficit occurs under WTO rules, and in our view the current deficit is not acceptable. We should be thinking about ways to narrow that deficit. At any rate, we certainly shouldn't do something that will obviously make the automotive deficit worse. The way a Korea free trade agreement would do that is by giving a

preferential 6.1% price reduction to further imports from Korea against either domestic production within NAFTA or other imports from other regions. That, for example, is why Toyota and Honda, who have a strong presence in Canada, are also completely opposed to this: they view it as giving the Korean auto makers a head start against their own products, whether they're imported or produced in NAFTA.

By virtue of Canada's open market, the 6% tariff reduction will lead to a substantial increase in our net imports from Korea.

**The Vice-Chair (Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.)):** Mr. Menzies and Madam Guergis will share their time.

**Ms. Helena Guergis (Simcoe—Grey, CPC):** Thank you, Mr. Chair.

We're going to give you our questions straight off the top, and then you can answer. If we run out of time, we really would appreciate the answers in writing, if that's possible.

First, I want to reiterate our minister's position on this. He has said many times very clearly that these negotiations are in very early stages, contrary to what one of you—I'm not sure which one—said in the comment about its being so far down the path. It is still early in negotiations; that perhaps is why we don't have a lot of the analysis we're still looking for.

I wanted to talk a little about several Canadian companies that have already started to do business in Korea. We have parts maker Linamar in Guelph, which now has an assembly plant there. At least one member of the Forest Products Association of Canada already has a joint venture in Korea, and they believe this proposed free trade agreement offers an opportunity to ensure the best protection for Canadian investment in Korea. I also met with a separate forestry stakeholder yesterday who has a plant in Korea. They raised the same benefit from the potential FTA. Potato growers are also looking to get into the Far East markets. There is a huge market for potatoes there, but there seem to be a lot of barriers that include tariffs and red tape.

Mr. McCreery, who was here on Monday, talked a lot about...and I think, Alanna, you may have even said something about 91% of our agriculture being involved in exports. If a deal were to be struck that allows our agriculture producers full access under FTA, what would that mean for Canadian agriculture?

**Mr. Ted Menzies (Macleod, CPC):** I would like to thank all of our witnesses. Once again, I apologize for the delay at the beginning; hopefully we'll be able to add enough time at the end to make your trip worthwhile.

I would like to start by making a comment. I think if we went back to the blues from committees prior to the 1988 election or to Hansard from the House of Commons, we would hear all of the same arguments and fears read off from all of those notes—all of the doom and gloom that would happen to us if we actually started to trade with the rest of the world.

I realize there are some concerns, but I hope everyone can look at this as a glass half full. We doomed the wine industry to failure and it was one of the best success stories following the free trade agreement with the United States.

Going back to Mr. Nantais' comment about being excluded from any discussions, the previous witness said they've established a dedicated automotive consultative group to support these negotiations. We're getting conflicting comments. We recently met in Ottawa with this group, and we're getting conflicting reports.

Alanna, you've stressed the value of multilateral versus bilateral, and that's something this committee is looking at. Could you share some comments? I know there are concerns about bilateral arrangements, but we're also concerned about potential failure in multilateral agreements such as in the WTO.

• (1730)

**Mrs. Alanna Koch:** As to your question about concerns at the multilateral level, CAFTA is very much focused on the amount of opportunity that will be provided to Canadian agrifood products if we do get more sanity in the international marketplace. We clearly need to see discipline occur with respect to subsidies and with respect to all the trade distortion that goes on with respect to access barriers.

We in CAFTA truly believe that's where we'll get maximum benefit, to see a positive and very ambitious conclusion to this round of negotiations at the WTO. Quite frankly, we're somewhat concerned about the position that Canada is now taking at the WTO with respect to the market access issue. In fact, Canada has become quite isolated. Just three weeks ago, Canada took a very bad turn, we believe, with respect to access issues in that we were very isolated.

We've been cited twice in the agriculture chair's papers, that Canada is alone in trying to stop progress with respect to the access movement, and that's clearly of concern to our organization and of concern to the 91% of agriculture and food producers in this country who are clearly dependent on the international marketplace.

We are an exporting nation. Canada is the fourth largest exporter of agrifood products in the world. Therefore, Canada should not only be participating very fully at the WTO, but in fact should be providing leadership with respect to all three pillars of the WTO: reduction of domestic subsidies; reduction of trade-distorting export competition; as well as improvements in market access.

We do believe there are benefits for our bilateral and regional trade agreements, but it must be very clearly emphasized that it can only be built on a very strong foundation of international trading practices, which must clearly come through and be signalled through the WTO.

**The Vice-Chair (Mr. Lui Temelkovski):** Mr. Nantais.

**Mr. Mark Nantais:** Thank you, Mr. Chairman.

Two things are in play here. Perhaps I need to clarify that.

My reference was to the participation and consultation as it related to the economic analysis work. We are not part of that.

The other part of it is the ongoing consultations with the negotiating team, which we are a part of and which we value very much.

But clearly, as to the economic report and the impact analysis that was done, we've been invited to make no contribution to that study.

So we're in the dark here as to what all these benefits are and what these impacts are.

Hopefully, I've cleared it up.

**Mr. Ted Menzies:** I would just make a comment that we are in the preliminary stages, so I'm sure that's still a fact-finding mission, even within the department. It's not like we're going to sign the thing next week. We're some distance away.

**Mr. Mark Nantais:** And we certainly appreciate that. Certainly the auto side of it is something that requires a lot more work, but we are part of the general goods and services section, and there's been a lot of language exchanged on that.

**The Vice-Chair (Mr. Lui Temelkovski):** Thank you.

Before we continue with Mr. Julian, I would just like to announce that you can submit questions, written questions, to the clerk, because of the rearrangement of our meeting today. You can submit the questions, and we will forward them to our witnesses and get some written answers for all of us, if you have further questions.

Mr. Julian.

• (1735)

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

I appreciate each of you coming here today.

I'd love to ask each of you a question, but because of time, I'll restrict my questions to Mr. Buckley or Mr. Stanford and Mr. Nantais.

To start with, Mr. Watson and I asked the previous round of presenters—you may have been in the room—about the issue around the automotive consultative group. Because CAW and the manufacturers were mentioned as being part of that group, I'd like to know to what extent you feel your concerns are being heard.

Secondly, because it was mentioned very specifically that the figures, the impact studies on the automotive sector and the auto parts sector, have been shared with people in that group, have you received those figures? If not, have you done any studies of your own that may indicate what the loss of jobs might be?

**Dr. Jim Stanford:** CAW has participated in the automotive consultative group, and I think it has been useful to do that. I will be frank, though, and say I'm not happy with how that consultative group has proceeded. The industry has been consulted; I would not say the industry has been listened to.

As to the key messages, I can't speak for everyone at the table, but certainly the dominant view would be, number one, from the auto industry's perspective, don't go into these talks; number two, if you do go into them, try to exclude the auto industry from the agreement; and number three, if the auto industry must be part of the agreement, then you have to attach some kind of binding, performance-related conditions to the agreement, whether it's in the form of a contingent tariff reduction, as Mr. Nantais indicated, or in the form of some kind of explicit condition, that the growth of automotive sales from Korea to Canada has to be offset by absolute, visible, measured progress in our automotive exports back to Korea.

In every case, the government officials at the committee said, "That's not a free trade agreement." I'm not sure whether that's the case or not. It looks an awful lot like the Canada-U.S. softwood lumber deal, to be frank.

At any rate, I'm not happy with the progress of that committee, and I'm going to be very concerned if I start to hear the argument that the auto industry was consulted and therefore they're fine with it. The auto industry retains its unanimous opposition to this direction. Again, that includes the big three, Honda, Toyota, the parts industry, the CAW, and other sectors.

**Mr. Peter Julian:** Is it true that the impact studies were shared with you?

**Dr. Jim Stanford:** No. The impact study in question, which I understand was performed by Industry Canada for the negotiators, was not shared. We have requested it. We were told initially it was confidential. Now I hear that perhaps it will be shared with us at a later date. But we haven't seen that study.

They have told us that it does imply job losses, just not major job losses, but until we see the methodology that was used, we can't judge the robustness of that. We are, at the same time, working on our own analyses that we'll be sharing with officials and with the public later on.

**Mr. Mark Nantais:** As I've just mentioned, we were also part of the consultation process. We continue to work through that process and hope that we will be heard, but thus far, we've seen no change in direction as it relates to the automotive sector. We're hoping we can be convincing enough that we will be able to do that. We certainly put a solution on the table, but we continue to hear, "Well, we've never done that before and it's not something we usually put in an FTA." But as I said, we've looked at this in the context of a legal perspective and in the context of the WTO. We think it can be done.

One area we are making some headway on is the need, I believe, to coordinate our negotiations with the U.S. as it relates to the auto sector. We are a highly integrated sector. We believe the auto sector should be dealt with as kind of a region, a North American region, Canada and the U.S., so hopefully we'll make some progress there. But right now, we don't see any change in direction, which is very disturbing.

**Mr. Peter Julian:** Thank you for that.

I'll come back, for my next question, to Mr. Stanford. It has been mentioned that there were concerns raised in 1988. As Statistics Canada's figures very clearly show, we've actually seen, for most Canadian families, a drop in real income since 1989, which means that the doom and gloom sayers actually should have been listened to, to mitigate the problems around NAFTA.

What can we learn from what has happened to the manufacturing sector over the past 15 years, and what can we learn from Korea?

**Dr. Jim Stanford:** I actually think there's a lot to be learned if we study the history of our existing free trade agreements, including those that were not with the United States, because there is an asymmetry involved when you're negotiating free trade with a smaller country versus with the United States.

The interesting experience is that with Mexico, Israel, Chile, and Costa Rica, four countries much smaller than Canada, the bilateral agreements resulted in a relatively small stimulus to Canadian exports to those regions but a huge inflow of imports from those regions. I referred earlier to the Chilean experience as the extreme case.

In terms of the 1989 free trade agreement, there are a lot of predictions that haven't come true, including many on the proponent side, that it would lead to a convergence in productivity levels between Canada and the U.S. and a big inflow of foreign direct investment to Canada to take advantage of it. Those two predictions have been unequivocally proven false.

The Koreans have taken a very different approach to industrial development strategy than we have. Instead of saying we're going to throw the market open and let business do what it likes, they have a very conscious, directed state strategy involving a range of tools, including financial market tools, activist foreign trade policy, macroeconomic measures, and labour market policies, all focused on building and creating competitive advantage in high-value industries, rather than, as we seem to be doing these days, looking at what we happen to have in the ground beneath our feet, digging it out, and selling it to the world market. It's a very activist strategy, and it has worked big time in Korea, as it did in Japan before and as it is doing in China today.

The implications of that approach for us are that those formidable competitors are not allowing the rule of markets to dictate outcomes. They have a very active state-directed strategy, and we can't assume that simple free trade is going to allow us to succeed in a mutual way with those trading partners.

● (1740)

**The Vice-Chair (Mr. Lui Temelkovski):** Thank you very much, Mr. Stanford.

I'd like to thank all the witnesses for appearing.

As I mentioned earlier, we will submit any questions that come through the clerk back to you for written answers. We appreciate your attendance, and I thank you for the committee.

I call the meeting to an end.







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