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Chair

Mr. Leon Benoit

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● (0915)

[*English*]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good morning, everyone.

I'd like to start by thanking all of the participants in this round table for being here this morning. We really do appreciate it very much. We know that you all are very busy. I do think that the time spent here today, though, knowing what your backgrounds are, will be time well spent. I know it will be for us. I really do appreciate your coming.

I'll explain a little bit about what's happening here this morning. This morning is actually the 31st meeting of the trade committee in this Parliament. Pursuant to Standing Order 108(2), we are holding a round table with participants to discuss in a very general fashion Canada's trade policy. Each of the participants has received a series of questions, and each of the MPs has a copy of those questions in front of them. We'll have a very informal meeting today. I'll recognize people as I see them indicate that they'd like to speak, and that includes the invited participants. If you have a question of another participant or of anybody—we really don't want the MPs to become the key witnesses here, as that could be really scary—certainly feel free to ask that question.

We had departmental officials in earlier in the week discussing what Canada's trade policy is. Of course, departmental officials can't really talk much about what they think Canada's trade policy should be because they're dealing with the mandate and the position they've worked towards and have been given. But you're not bound by restrictions, so the main overarching question is, what should Canada's trade policy look like. That's what we're here to discuss today.

After the meeting we'll have an hour for lunch on an informal basis, and it will be a chance for MPs to interact with each of you, the invited participants.

There will be no order of questions today, as I've said. I'll just take them as I see members of Parliament or others indicate they'd like to ask a question or make a comment.

We'll just go ahead. I'll start with the first question.

We did agree to this at the last meeting, but apparently because of the money that will be spent on the lunch we need a motion to agree to pay for the lunch after.

Are MPs agreed? Somebody should make a motion, actually.

Mr. Ted Menzies (Macleod, CPC): I'll make the motion.

The Chair: Ted Menzies so moves. Agreed?

Mr. Ted Menzies: That Leon pays for lunch.

The Chair: Agreed? That Ted Menzies pay for...? No. Ted, we got in trouble at the last meeting with this joking back and forth. It didn't come across quite right.

Mr. Ted Menzies: Yes, I know. No more joking.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: At 10:45 we do have a couple of things for the committee to deal with for about fifteen minutes. One is a very brief discussion on Bill C-24, the softwood lumber bill, and how that will start on next Tuesday. I don't think there's a lot to discuss on that, but Peter Julian also has two motions before the committee. One was passed at the last committee meeting, but it was passed in a form that we discovered really didn't allow the clerk to prepare the report, so we need a little bit of discussion to deal with that.

Mr. Julian, if you want to deal with the second motion at today's meeting.... If we could put it off to the next meeting, that would be very helpful, but that's up to you.

Let's go ahead then. If we can start with each participant giving a little bit about their background, and then very briefly, not in an opening statement, talk about what Canada's trade policy should look like, in a very general fashion....

Because of the way we're set up here, we'll go around the table very quickly, having each person at the table introduce themselves, not with a long speech, but when it comes to the members of Parliament, just give your name and riding.

I'm Leon Benoit. My riding is Vegreville—Wainwright in Alberta. Let's just go around the table this way.

Mr. Menzies.

Mr. Ted Menzies: You expect a politician to be that brief?

The Chair: You're out of order. It's name and riding, Mr. Menzies.

Mr. Ted Menzies: My name is Ted Menzies. I represent the riding of Macleod in southern Alberta.

The Chair: Go ahead, Mr. Myers.

Dr. Jayson Myers (Senior Vice-President and Chief Economist, Canadian Manufacturers and Exporters): I'm Jay Myers, senior vice-president and chief economist with Canadian Manufacturers and Exporters.

[*Translation*]

Mr. Serge Cardin (Sherbrooke, BQ): Good morning, gentlemen. My name is Serge Cardin and I am the member for Sherbrooke, Quebec. You may have heard of the riding of Sherbrooke since it's also the riding of Premier Jean Charest at the provincial level. In that sense, we are political opponents.

I come from of the accounting profession. I have worked for business persons and I have met importers and exporters, people dealing with various federal departments and organizations such as Export and Development Canada. We will have the opportunity to talk about that later on.

[*English*]

The Chair: That was a reminder to individuals who are not used to being here that you may need translation. Maybe you don't. If you do, English is on channel one, French on channel two, and the language being spoken, because the acoustics aren't always the best, is on channel three.

Go ahead, Monsieur André.

[*Translation*]

Mr. Guy André (Berthier—Maskinongé, BQ): My name is Guy André and I've been the member for Berthier—Maskinongé since 2004.

That's all.

● (0920)

The Chair: Thank you.

[*English*]

Mr. Peter Julian (Burnaby—New Westminster, NDP): I'm Peter Julian. I'm the NDP trade critic and the MP for Burnaby—New Westminster, in beautiful British Columbia.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Good morning, Mr. Chair and guests.

I'm Ron Cannan. I represent the riding of Kelowna—Lake Country in the southern interior of British Columbia. We manufacture some great wine and apples.

I know Sherbrooke is a great hockey community. I've used many Sherbrooke hockey sticks.

The Chair: I think when anybody goes beyond name and riding it's a paid ad beyond that point. The money will be paid directly to me after, and it'll be based on a per second charge.

Mr. Maloney.

Mr. John Maloney (Welland, Lib.): I'm John Maloney, a member of Parliament from the riding of Welland in the region of Niagara, Ontario.

The Chair: Thank you.

Mr. Hodgson.

Mr. Glen Hodgson (Vice-President and Chief Economist, Conference Board of Canada): Good morning. I'm Glen Hodgson. I'm vice-president and chief economist at the Conference Board of Canada. I have a checkered career, having served at the federal Department of Finance, Export Development Canada, and also at the International Monetary Fund.

This is one of my favourite topics, Mr. Chair.

The Chair: Great.

Mr. Murphy.

Mr. Michael Murphy (Executive Vice-President, Policy, Canadian Chamber of Commerce): Thank you, Mr. Chair.

My name is Mike Murphy. I am executive vice-president responsible for policy at the Canadian Chamber of Commerce.

The Chair: Thank you.

Mr. Temelkovski.

Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.): I'm Lui Temelkovski, member of Parliament for the riding of Oak Ridges—Markham, which is on the north side of Toronto.

The Chair: Mr. Eyking.

Hon. Mark Eyking (Sydney—Victoria, Lib.): I'm Mark Eyking, member of Parliament for Sydney—Victoria, in Cape Breton, Nova Scotia, on the Atlantic coast.

The Chair: Thank you.

Mr. Tomlin.

Mr. Ben Tomlin (Fellow, C.D. Howe Institute): My name is Ben Tomlin. I am a C.D. Howe Foundation fellow at the C.D. Howe Institute. I'm also a PhD candidate focusing on international trade and finance.

The Chair: Would the researchers introduce themselves, and the clerk as well, very briefly?

Mr. Peter Berg (Committee Researcher): My name is Peter Berg. I'm with the Parliamentary Information and Research Service and I've been staff on this committee for quite some time now—since 2000.

Mr. Michael Holden (Committee Researcher): My name is Mike Holden. I'm also with the Research Branch of the Library and I've been with this committee for about four years.

The Chair: Mr. Clerk.

The Clerk of the Committee (Mr. Normand Radford): I'm Norm Radford. I'm the clerk of the committee. I've been with the House of Commons for about 20 years and with this committee for a few weeks.

The Chair: Thank you.

Before we get to the more in-depth introduction by each of the invited participants, I would like to point out that at the back of the room today we have a class of interpreters from the University of Ottawa. I want to recognize your being here.

I want to say that some of us more than others really depend on interpreters here in the House of Commons. I don't know what your futures might be, but all the best to all of you. It's a great occupation and career.

Let's start—we'll go around the table the same way—with Mr. Myers. Could you start with a little bit more on what your involvement is with the organization you are with, and then briefly state what Canada's trade policy should look like?

Dr. Jayson Myers: Thank you very much, Mr. Chair, and thank you, members of the committee, for inviting us here today.

I think we all find that this particular issue not only is important but will be of growing importance, and that our ability to craft an international business policy is really going to be very important for not only the future competitiveness of Canadian business but also our ability to take advantage of new market opportunities around the world.

The Canadian Manufacturers and Exporters, as that organization, has been in existence for about ten years, but it was formed as the result of the merger between the Canadian Manufacturers Association and the Canadian Exporters Association.

That's an interesting development in itself. The CMA was established in 1871 for the sole purpose of fighting free trade with the United States and protecting Canadian industry. The Exporters Association was formed in the 1940s to open markets around the world for Canadian goods and services.

The fact that these two organizations came together says a lot about the nature of Canadian manufacturing today and of Canadian industry. Close to two-thirds of what is manufactured in this country is exported. The United States is our major market. I think it also says that if we're going to have successful businesses in Canada, then international business and international markets play a very important role.

I've worked with CMA and CME for fifteen years and have worked very closely with other colleagues around the room on the development of trade policy issues.

Let me just make five or six quick points about what Canada's trade policy should look like.

I don't think we should be talking about trade policy. I think we should be talking about international business policy, because what we're looking at today is a very new era in which businesses are operating on a global basis.

The success of Canadian business—the success of any business today—depends on exports, it depends on imports, it depends on international investment, and on our ability to secure product mandates and attract international investment. It depends on services and technology and partnerships around the world. It's international business. We talk about integrative trade, but what we're really talking about is a global international business policy, and we should be thinking in that context.

The second point I would make, when we ask what the role of government is in this, is that the role of government is to negotiate agreements with other countries in order to secure non-biased access for Canadian businesses, exporters, and investors.

Part of the role of international business policy is that negotiation, but a very important other role involves the business services that are delivered by government and government agencies in support of Canadian businesses doing business around the world.

My third point is that we should be dealing with circumstances in markets in ways that fit the circumstances of the economy. Our approach to the United States and to business in North America, I think, has to be a priority, just because of the nature of the integrated relationship today that has developed particularly over the last fifteen years. The approach to the North American market is going to be different from our approach to other markets around the world, but we should also focus on those other markets. That's another part of our international business policy.

My fourth point is that international business policy has to be integrated. It has to be integrated among federal and provincial departments and agencies. I think there's a lot to be done to have a much more integrated approach.

It has to be integrated with domestic policy as well. We can't take advantage of the opportunities in the Asian market unless we build the right infrastructure here—for instance, in transportation at our west coast and east coast ports—and then have the types of North American logistical systems that make it possible to import, export, and do business not only with Asia but with the United States as well. That's an example of where we need an integrated domestic approach.

● (0925)

I would also say that we need an integrated approach in terms of the enforcement of trade rules. It's all well and good to negotiate trade rules, but when it comes to actually enforcing trade rules we fall short. That has to be another very important part of our international business policy.

My final point is that international business policy, whether it's for the negotiation of international agreements or for the provision of business services, has to be focused on the customer, on those Canadian businesses that are doing business around the world. Like any good business, it has to be a customized service. What we do in government in policy and in business services has to provide a solution to those Canadian companies that are doing business around the world.

Thanks.

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

Mr. Hodgson, would you give a bit of an introduction to what you're involved in with the organization and then just a brief statement about what you see Canada's trade policy looking like.

Mr. Glen Hodgson: Jay's done a great job of opening up the debate. In fact, rather than having six points, I can only make three, because I'm going to play off many of the comments he's made.

First of all, I should tell the committee that the Conference Board is very close to publishing the biggest piece of work we've ever done. It's a project called the Canada Project—a pretty grand name—funded largely by the private sector three years ago. We have produced 26 research reports to date and we have more to come. We'll be publishing in January in three volumes, one on Canada's place in globalization—how do we stay a rich nation—one on resources, and one on cities as a driver of wealth.

Perhaps more important for the committee, *Maclean's* will be doing a preview of this, taking pretty much a full edition in mid-November, as they do with universities and other things.

[*Translation*]

The magazine *L'Actualité* is going to do the same thing in French. I believe their coverage will be shorter but it will be of the same quantity and will transmit the same message.

● (0930)

[*English*]

We're very excited, because the Conference Board will have a chance to share its thinking on Canada's place in globalization with the entire country, using *Maclean's* but also trying to reach idea leaders such as yourselves.

We're basically going to set out a series of core strategies for creating wealth in Canada, and trade and investment policy is at the centre of it. It's a critical piece of the national productivity strategy, so there I agree with my colleague Mr. Myers entirely.

We've been debating violently and agreeing, Jay, for about fifteen years now, and again we're in full agreement that having a well-articulated international trade and investment policy is right at the heart of our productivity agenda of creating wealth within Canada.

Trade matters for two reasons, effectively. It matters because it allows us to reach more markets around the world; it gives us access to billions of consumers rather than tens of millions. But it also keeps us honest: it raises the level of competition within Canada.

Economists are trained to see the value of trade. Really, what we're talking about is keeping our businesses sharp, exposing them to international competition, forcing them to innovate and to adapt more quickly, and frankly, I think we've gone to sleep over the last decade. I'll come back to that in my third message.

The core message for us is that trade and investment is right at the centre of developing a well-articulated national productivity strategy.

Secondly, I'd like to agree with Jay that for us trade and investment are not separable. They're really completely integrated. In fact, there's an expression now being used increasingly in government, “integrative trade”. It's actually a term I created about four years ago when I was at EDC to try to demonstrate how inseparable imports are from exports, investment is from trade, services are from goods. They're all now integrated parts of a whole, and our whole trade policy approach—policy practices within government, how you negotiate—has to take that as the backdrop.

We're still stuck in a world of mercantilism, where we largely see exports as good and imports as bad, and we want a little bit of investment, but we only want it on certain terms. That doesn't work any more. The world has already moved beyond Canada. We've become a laggard rather than a leader in international trade. I think it's time for us to move to the front of the pack.

And maybe that's the third message, that since NAFTA, Canada has really become a follower on international trade. We are no longer a leader within the World Trade Organization. We're not part of the inner circle of people making policy. We have not aggressively pursued NAFTA deepening. We only have three very small bilateral deals, while the rest of the world is out negotiating like crazy. The Americans, the Chinese, and the Europeans are extremely active now, trying to expand their access to other markets and also to create competition integration. It's about time Canada got really into the game.

I can talk about that in greater depth as we go on, but perhaps I'll just stop right there.

The Chair: I would be interested in knowing later on why you think it is that Canada hasn't been a leader over the past while.

Mr. Murphy.

Mr. Michael Murphy: Thank you, Mr. Chair. It is a pleasure to be here this morning. Having listened to the first two presentations, I can safely say that we're onto some themes we all agree on.

Let me briefly speak to the issue from the perspective of the Chamber of Commerce. I think you're all aware that our organization is very much a broad-based business organization, including large businesses, small businesses, every sector of the economy, and all parts of the geography. Our focus as an organization—I think it's what's relevant, quite frankly, to this discussion—is on competitiveness and productivity, and that's where we should start the discussion. I noted that in June the trade minister started his speech with respect to International Trade Day that way, and I was encouraged by that. I think it's exactly the right context.

Competitiveness and productivity constitute the overarching issue for us as an economy. There are many components to it, and we can talk about many of them, but we focus on the trade and investment side. The two go together, as our first two presenters pointed out very well.

There is a context, though, when we talk about competitiveness and productivity in our economy. We also like to talk about it in terms that some people I think can understand a little more readily; we use the phrases “standard of living” and “quality of life” when we take it to that extreme. Whether you're talking about what you need to do in the next budget or what you need to do in terms of the next trade agreement that we're negotiating or what we're going to do in terms of domestic policy to support those initiatives, our standard of living in Canada is the issue here, and we should never take that for granted. That's why I think what you're doing today—thinking about Canada's trade policy—is worth doing.

That's the context for us and for our members.

I'll also just repeat that it is absolutely essential, in terms of thinking about policy, that you don't have an international policy that's separate from what you're doing domestically. We can throw those words out there, but they are very important in terms of what we should be doing on a day-to-day basis in thinking about trade and investment from a strategic standpoint.

My last point is to give you a quick sense of where we are as an organization. I'll do this with top-line priorities, because we have a chance to test this regularly with our members; at our annual meeting a few weeks ago in Saskatoon, we spent quite a bit of time talking about trade priorities because they're important to our members from across the country. Obviously our relationship with the United States and our relationship inside North America still remains, for our members, at the top of the heap, and we can talk about that further.

We have deep disappointment with respect to where we are on multilateral negotiations in terms of Doha. I don't think a country like Canada should be other than deeply disappointed with what's going on, because, quite frankly, multilateralism is our best option as a country, and the fact that we're deeply mired in this stoppage at the WTO is a big concern to us.

Because we're talking about how important trade and investment are on a regular basis, it didn't take us long to make sure we want to stay focused on foreign investment protection agreements. These are vital and essential for our members across the country.

I'll stop there, Mr. Chair. Those are just some top-line remarks.

● (0935)

The Chair: Thank you very much. I appreciate that.

We'll go to Mr. Tomlin now.

Mr. Ben Tomlin: Thank you, Mr. Chair.

Jayson and Glen and Michael have all talked about why trade is important for Canada and why we should be involved in these international negotiations. A lot of what I want to say has already been said, so I'll keep it brief. I wanted to start by outlining what I think are the five policy options we have in pursuing trade negotiations. They are not mutually exclusive. I think this can help structure some of the rest of the discussions; I'll just outline them and leave it at that.

Obviously our first option, as Michael was saying, would be continuing to push for a deal in the WTO, and that would mean focusing our efforts on the multilateral effort. This is obviously the best for Canada from an economic standpoint, but as we know right now, it has run into some problems, and it doesn't look like there's going to be much headway made on it.

Our second option is to pursue bilateral deals. There are two ways in which we can do those. The first is to follow in the footsteps of the U.S. The U.S. obviously has an agenda right now of finding foreign market hegemony by developing a U.S.-style trade agreement and making bilateral deals with countries for reasons that aren't so much economic as they are strategic.

We have two options if we follow in the footsteps of the U.S. One is to try to get involved in future bilateral negotiations with the U.S.—to try to make them trilateral in this sense. This is good, in that it would limit some of the hub-and-spoke effects that can happen when the U.S. is signing outside deals and Canada is not involved in them. This is one option.

Another option is to go out on our own and sign bilateral deals with countries the U.S. is negotiating with and already has deals with. This can be framed within creating a Canadian style or Canadian brand of trade agreement.

Another way in which we can pursue bilateral deals is not following the footsteps of the U.S. We can either go after countries that are of economic importance to us, ones that we actually want to open up trade with, or we can have a system similar to the U.S. system—go after countries and offer them a Canadian-style or Canadian-brand trade agreement. This can be strategic in the sense that spreading bilateral deals can actually work towards opening up the WTO negotiations. If we offer a trade deal that's in line with the WTO negotiations, it can actually work towards opening up the WTO.

The fourth option is the economist's favourite; I don't think it's going to be too popular here. This would be unilateral liberalization. I think it would be great to see a headline in the newspaper saying that Canada really believes in trade—so much so that we're willing to unilaterally liberalize. Obviously if we want to do something like this, some deep sectoral analysis would need to be done, but I think it is a good option for Canada.

I don't know if the final option is really an option. It is to do nothing, to continue on and not look for bilateral deals—just give it time, see how things go with the U.S. negotiations, and see what happens at the WTO.

I'll leave it at that. That can be a framework for your discussion.

● (0940)

The Chair: Good. I'll now look for hands. Mr. Menzies....

But I want to comment on the unilateral option. You say it may not be well received here, but in terms of interprovincial trade, Alberta took that approach, and it's worked extremely well, so it's not something to be dismissed out of hand. It's an interesting concept.

Mr. Ben Tomlin: I like that option. I just don't know if it's politically viable.

The Chair: It is interesting.

Mr. Menzies is next.

Mr. Ted Menzies: Well, Ben, I hope your final thesis isn't on your last option. I don't think that's good for Canada. I realize you just threw it out for discussion, and I think you'll find that most people around this table will realize it's not an option.

I find it interesting that so many of you have raised the importance of the WTO. I've always been a strong supporter of the multilateral, because we can get some dispute settlement mechanisms with some teeth in them, some sort of international trade rules that can protect us. If I could, we're looking for a way to restart this. I'm hoping that on November 8, after the U.S. election, we actually might have a snowball's chance in you-know-where to get this thing going again, because it is so critical for this country. I would like some ideas specifically on how we may restart it, if you would share those with us. Is there something this government is missing, something we can do to help kick-start it?

Glen, you made a comment about competitiveness, and I see that investment protection is an issue you have talked about. Something that I'm trying to get back on this government's agenda is the ICSID convention. I'm not sure how familiar you are with it; it's the International Centre for Settlement of Investment Disputes. Something like 130 countries belong to this ICSID convention; Canada is one of them, yet we're not a signatory to it, so basically we have left Canadian companies that invest in other countries vulnerable to piracy of their investments.

We're trying to get this. We're very close. We have legislation there that we can put back on. Would you share your thoughts on how important it is that we actually sign on to this? I realize it's a provincial and a federal issue. We have most of the provinces on side; a couple of them are this close.

Could we have your comments about that, please?

The Chair: Go ahead, Mr. Hodgson.

Mr. Glen Hodgson: Perhaps I can take on both points.

First of all, I think all of us around the table would agree that multilateralism is the best option, so why is it not happening?

I hate to disappoint you, but my own view is that the Doha Round will not restart until there's a new U.S. President. The current President is going to have a very exciting election in a month's time and may well lose control of the House—perhaps not the Senate, but the House. Even the degree of American commitment to Doha is quite questionable, including their willingness to put some of the hard stuff on the table, such as agricultural subsidies in the United States. My own view is that Doha has no chance of restarting in a serious way until we have a new U.S. President, who then will have to go to Congress to get delegated authority from the new Congress. We're looking at 2009. I wish the government great luck in trying to get things going between now and then, but for me that's *realpolitik*, which means we have to think about things to do in between, and we'll come back to that.

About ICSID, I don't know. I do know, though, that Canada's strongest interest is in having a rules-based system, a system of strong and clear rules toward dispute settlement. If ICSID is driven by that, then it is absolutely desirable. One of the sad things that happened globally in the last decade was the failure of the multilateral agreement on investment. We pursue bilateral investment protection as a substitute, but the optimal would be to have a global system protecting investment on an aggregate basis.

If anything can be done to make Canada both a signatory and a ratifier of ICSID, I think—without having deep expertise—it would be the right thing to do. On a principle basis, pursuing vehicles that protect investment is absolutely a good thing, because Canada is now a net investor in the world. We're no longer just a receiver of foreign-directed investment; we now have outward flows of investment that are far greater than the inflows, and the sales abroad from those outward flows are almost as big as our goods exports. Outward investment is a critical piece for successful Canadian international business.

I like Jay's line a lot about international business. I tend to use that myself, Jay, when I go out to talk to people. It's not just trade and investment; it really is looking at this as an integrated piece of how our businesses are going to succeed in the world.

● (0945)

The Chair: We'll go to Monsieur André and then to Peter Julian, but before we do, if any of the participants who have been invited would like to ask questions of others, feel free to notify the chair of that too.

Monsieur André.

Mr. Ted Menzies: I was hoping to get a bit of a comment from everyone about the WTO, but then I've been ruled out of order before.

The Chair: I think we'll just have the questions directed to one. If the others really feel a strong urge to add to what the first one has answered, do that, but let's move through a little faster.

Yes, Peter.

Mr. Peter Julian: If I could, Mr. Chair, I think Mr. Menzies' point is a good one, because I think the questions that we'll tend to have will be for all four. If they choose not to answer it, that's their choice, but I think it's more difficult, and it would be more awkward, for us to try to direct a question to one, when we're looking for responses from them all.

The Chair: Okay. Is there anyone else on the WTO, on Mr. Menzies' question?

Go ahead, Mr. Myers.

Dr. Jayson Myers: I think we'll all make a response.

I would say that the WTO was not just a failure of the U.S. and a failure of the WTO to come to an agreement among all of its member countries. I think it was a good example of the failure of Canadian leadership in those negotiations. We really cannot proceed in multilateral negotiations or trade negotiations or investment negotiations with our hands tied behind our back because we're not prepared to negotiate all issues on the table. We can't go into negotiations on that basis.

The Chair: Thank you.

Mr. Murphy.

Mr. Michael Murphy: I support what Mr. Myers just said. I think he's right on the money there.

There are a number of key factors that go into this, and absolutely the global political agenda in terms of what's going on is always part of the reality. But it's also about what negotiating trade deals is all about—it's the give and take of the process. Somehow we, as a player, who used to be, I would say, as integral within WTO and as important as almost any other country, especially a country our size, which is why WTO and multilateralism is so important for us, have been marginalized—I think I can put it that way—as a result of our own doing in terms of taking defensive interests that we have, on the one hand, and handicapping ourselves, or as Jay said, tying our hands behind our back. That is part of the reality too. You have to be prepared to step up to some of these issues and be able to say, here's what we're prepared to do to help move the thing.

It's also true for others, and particularly, as we've seen, for the EU and the U.S.

The Chair: All right.

Mr. Ben Tomlin: I think the issues have been addressed. It's mainly that Canada needs to look at what areas it's protecting and it needs to be able to loosen up, to free up, the negotiations. It's already been said.

The Chair: Monsieur André.

[*Translation*]

Mr. Guy André: I come from a rural area in the writing of Berthier—Maskinongé. It's an area where one finds furniture companies, textile companies — industries which have been weakened — and many farm operations. Because of free trade, bilateral agreements and globalization, those rural areas are facing major difficulties leading to job losses and the empoverishment of the population. Rates of unemployment keep increasing and people move to the cities because they lose their jobs, among other reasons. With the arrival of free trade, the WTO and those bilateral agreements, among other things, I see that those rural areas are slowly losing their population and that those people who remain are becoming poorer.

You mentioned Mr. Murphy and the Doha Round. I was there. You know that agriculture is also a major issue with supply management and the opening of markets. Those are threats for farmers. Farmers aren't getting any richer. They have a very difficult life and those things threaten their quality of life.

I have a question. I saw recently some statistics indicating that those agreements — the bilateral agreements and WTO agreements — create situations where some people are getting richer but many more are only getting poorer. There's a saying that the rich get richer and the poor get poorer. That's part of the negotiations.

Does your trade policy include strategies or methods both to open our markets — I know that we live in an era of open markets — and to provide better protection to our manufacturing industries, our people and our regions? We should have an approach taking account of our whole territory, the whole of Québec and of Canada, because we should not give up on some regions or some groups of population. Would I be dreaming in thinking that those agreements could make sure that everybody has a place in our society and that nobody gets poorer, white taking account of Asian competition? This kind of competition creates difficulties for our industries in forcing them to produce at the least possible cost.

I would like to have you answer about this. Are there any possible strategies? Would it be possible to provide some type of protection to our weakened industries?

● (0950)

[*English*]

The Chair: Merci, Mr. André.

Mr. Hodgson, please go ahead.

[*Translation*]

Mr. Glen Hodgson: Mr. André, I will answer in English if I may since I'm not as good in French.

[*English*]

You've just identified the fundamental problems of any sector, any region, that has relied upon protectionism historically. It's a vicious circle. It's a vicious circle because the more you protect, the less competitive and the less innovative firms are, and the less they have to adapt to new technologies and the less they have to meet international competition. It really becomes a vicious circle, because you need to keep building the walls higher and higher to fight off the new competition. That's why we're trying to articulate a national strategy, a positive one, in our forthcoming report. Rather than protecting, let's invest. Let's invest in human capital, in human beings. Let's invest in new technologies. Let's invest in innovation. Let's allow our businesses to position themselves.

Clearly, sectors that are protected and that are also exposed to international trade need help; they need adjustment help. What they don't need is ongoing protection, which treats them as a welfare case.

It's very tough for the first generation of worker, I would argue, because often those people aren't well educated. They've been doing a fairly standardized job that doesn't require them to be creative thinkers, and they're being moved into a different world. Most economists are trained to say free trade is better because it keeps you on the cutting edge. I think most of us would also agree that if you're going to move any sector from protected to exposed in international competition, you have to help people adjust. You really do. In fact, you have to invest at least as much in adjustment as you do in pursuing freer trade. It's something we're going to talk about in great depth in our report.

I have great empathy for people in parts of our economy who are in things like textiles and furniture in Atlantic Canada, in rural Canada, in Quebec. Life was good as long as you hid behind the protectionist wall, but you know, the walls come down. We've seen the aggregate benefits from freer trade through the various WTO rounds. I think the key issue in fact is how to find positive ways to invest in human capital, ensuring that the kids coming into the school system can be as competitive as the Chinese are going to be or as the Americans are going to be. Then the adjustment for the existing workers is a key issue.

I'm not as keen to protect capital. I'm not particularly keen to protect the owners of capital, because they've seen the forces coming. I am much more interested in protecting the workers who are directly affected and in helping them to adjust.

The Chair: Just for clarification, in your comments on protecting capital, are you saying you don't think there's a real need for the type of thing Mr. Menzies was talking about, that is, having an agreement on protecting capital?

Mr. Glen Hodgson: No. I'm talking about subsidizing existing industries in order that they can keep doing things behind protective walls.

● (0955)

The Chair: Okay.

Mr. Meyers, please go ahead.

Dr. Jayson Myers: I also come from a small town in which furniture industries used to be a very important part of the economy. In 1990 most of those companies closed down. Much of it was because those companies just couldn't compete against the low-cost goods coming in, particularly from the United States. They were facing tremendous competition from the U.S. They dropped a 23% tariff overnight, and there were no adjustments. In the framework in which they had to make those changes, there was nothing to help them. I'm not talking subsidies. I'm talking about tax policy, employment policy, training policy. There was no net to catch them, nothing to help them make that adjustment.

The Canadian furniture industry was a $3 billion industry in 1990. By 1992 it was down to about $1.5 billion. Today it's about a $12 billion industry. The reason: opening markets allowed companies to become more competitive, more specialized, and more flexible. On the textile side, the clothing side, you had companies like Peerless, which is truly peerless in its ability to satisfy its customers.

It's a very different way of working. It's not just the effects of free trade. Today we're entering a new era of global competition that, whether we act on it or not, is going to result in a general restructuring of Canadian manufacturing. That means we have to choose the domestic policies that will make this transition as easy as possible. We need to provide companies and employees with the ability to upgrade their skills, products, and processes.

That means we need a tax policy that makes it easy to invest in new technology. We have in Canada the world's eighth highest level of taxes on investment in new technology. We have to have in place the right logistic systems, the right training programs. One of the reasons that textile manufacturers, agricultural producers, and furniture manufacturers went into free trade with one hand tied behind their back was that the interprovincial trade barriers they faced up until 1990 prevented them from selling across Canada. These are regulatory barriers that companies face. We can't import deodorant into this country without going through an inspection process different from that of the United States. Now American and Canadian underarms, I would argue, are just about the same. But Canadian consumers lack a lot of the products that are on the shelves in the United States. It's not just separate inspection processes. To resolve those regulatory differences, there has to be an entirely different production process in the U.S.

It works the opposite way too. Regulatory differences keep us out of a lot of U.S. and other markets. We have to deal with these non-tariff barriers. We should align our domestic policies so as to make sure we have prosperous companies that can take advantage of the international market agreements we're negotiating.

Mr. Michael Murphy: There's one point of Mr. André's that I disagree with: the notion that trade, considered across the whole economy, harms more people than it benefits. I don't think that's true. There's a lot of data to demonstrate how important trade is to our economy and our standard of living.

Both our previous commentators mentioned adjustment programs, which have to be part of the reality. We've seen these in NAFTA and other programs. This is a classic example of the need to harmonize domestic and national policy. Jay was just talking about how fiscal policy plays a major role. Tax competitiveness is going to be just as important as regulation. On the skills side, I'm concerned about the disincentives to labour mobility we have in our home market. There are a lot of issues that need to be addressed. That's why you can't make trade policy in a silo.

● (1000)

The Chair: Mr. Tomlin.

Mr. Ben Tomlin: When economists talk about the benefits of globalization, it's important to distinguish between the long-run and the short-run effects. Economists are usually talking about the long-run benefits. In the short term, there are going to be drawbacks such as the costs associated with reallocations and people having to move. The issues you're talking about, Mr. André, are the short-term effects.

Considered in the long term, there's lots of evidence to show that trade is really helping the Canadian economy. There's a recent, often-quoted paper out of the University of Toronto showing that NAFTA has resulted in large productivity gains. You need at least ten years of data to be able to go back and see the gains.

Obviously, there are concerns associated with the short-run effects, and I'm going to echo some of Jayson's comments on this. We need to dampen some of the short-run effects. One major thing we need to simplify and clarify is the Canadian tax system. Right now, as Jayson said, the effective tax rate on capital is the sixth or eighth highest in the world, which doesn't allow young and established firms to grow or to deal with their competition.

To deal with these short-run effects, there should be some government program to retrain people whose jobs have been affected by globalization. We need a program that either teaches them to be more productive in their own industry or trains them for a new job and lets them stay where they are. I think these are two important issues.

The Chair: With what's going on in Alberta now, industry is in many cases doing its own retraining. Alberta is that desperate for people.

Two people have just come in. Dominic and John, please introduce yourselves.

Hon. Dominic LeBlanc (Beauséjour, Lib.): I'm a Liberal member of Parliament from New Brunswick. The riding is called Beauséjour, a predominantly francophone rural area in southeastern New Brunswick. I apologize for being late.

Mr. John Williams (Edmonton—St. Albert, CPC): I'm John Williams from the riding of Edmonton—St. Albert. Unfortunately, I can't stay too long today, Mr. Chairman, but I'm certainly glad to be here to offer my two bits and any wisdom that I may or may not have to the agenda.

The Chair: Mr. Julian.

Mr. Peter Julian: My thanks to all of you for coming today, particularly Mr. Murphy. I'm a proud member of the New Westminster Chamber of Commerce and the Burnaby Board of Trade. I come from the small business sector.

I'm going to follow up on the comments of Mr. André. They are in keeping with the way many Canadians feel about how we are now situated, more than fifteen years after signing the free trade agreement. It's not a short-term impact. I would argue that it's a medium- to long-term impact. Statistics Canada tells us, Ron Cannan just reminded me, that since 1989 real income has declined for 80% of Canadian families. The bottom 80% are actually earning less in real terms than they were in 1989, when the free trade agreement was being implemented.

So there's a problem. It's not just for industries that are in decline. It's a general problem. The bottom line is, when we talk about quality of life, as Mr. Murphy referenced, most Canadian families are finding it harder to make ends meet. They're working longer weeks.

This is a fundamental problem we have to address, and I don't think we can address it by doing the same things and looking at trade agreements fashioned on the American model.

Other countries are dealing with trade agreements in a different context. In Europe, they're establishing, within the context of trade agreements, social standards, labour rights, and environmental standards. In other words, they're levelling the playing field but not going down, not digging a hole. They're raising that playing field as they're levelling it. So Europe has that context.

In Latin America, they're looking at trade agreements that target poor communities for economic development.

I have a question for all four of you, starting with Mr. Murphy. Shouldn't we be looking at new approaches to trade agreements, and to trade itself, that deal with the bottom line of bringing a relative level of prosperity to all Canadians, rather than what we're seeing now, which is an increasing gap between the wealthy 20% and the 80% of Canadians who are losing ground?

● (1005)

The Chair: Who would like to take the first one?

Mr. Murphy.

Mr. Michael Murphy: Sure. Thank you.

In terms of the importance of trade to our economy, I have two quick comments.

One, from study after study, I think it's indisputable that the benefits of trade—whether it's NAFTA, whether it was the FTA that preceded it, or whether it's WTO—are crucially important to Canada. This is a small economy that absolutely depends on trade liberalization. Market access for us is absolutely crucial to our standard of living. So I would start with that.

Some people, a number of economists, for instance, call the nineties the “lost decade” in this country. There were some good reasons for that. One of the reasons was our incomprehensible desire to overtax Canadians. Never mind businesses for the moment, I'll just focus on individual Canadians and what we did with personal income tax rates, including payroll taxes. The tax burden on Canadians was way too high. It still is.

I think the finance minister made a statement the other day to that effect. And this is 2006. It certainly was true in the nineties. The nineties were particularly difficult years for the Canadian economy, for a variety of reasons. In terms of the opportunity to have a higher degree of disposable income, I would argue that part of the reason why a number of families...was tax policy in Canada through the nineties. A lot had to be done. With the budget in the year 2000, we basically started to address these. There is much more that needs to be done.

This is another one of those examples where you say, what's the role of trade? Where would we be if we hadn't negotiated the FTA and then the NAFTA? I suggest we would have been far worse off as an economy.

I won't take the time to go through the numbers in terms of what has happened to our GDP as a result of it. I did have the benefit, though, of having a look at a very useful publication—if you don't mind me taking half a second to mention it, Mr. Chair—which the foreign affairs and international trade department just put out, called *NAFTA @ 10* . It's a very good document, and there are a number of good contributions from a variety of knowledgeable players.

One of them is from your backyard, Mr. Julian, in terms of Simon Fraser University. Richard Harris is an economist there who I thought made a pretty interesting statement. He said:

> In virtually all domains in which economic measurement is possible—trade flows, investment, employment, consumer benefits, productivity growth, improved competition in product markets and reduced exposure to protectionist actions in the US export market—there have been important measurable and positive impacts of this agreement.

I think you could add to that list. Essentially, the standard of living of Canadians has been lifted as a result of the work we've done in that area. Whether we have other challenges...and I agree with you, we certainly do. I think we still have, as Ben just mentioned, in terms of our effective rate of tax on capital and what that means for investment in Canada. The fact that we're still an economy that taxes investment is a huge problem. And our personal income tax burden is still way too high.

There are specific things we would suggest to do there, but I won't take the time to get into them now.

● (1010)

The Chair: Thank you.

Mr. Hodgson.

Mr. Glen Hodgson: Mr. Chairman, I'm going to take a slightly different tack. I agree with Mr. Julian that there is a fundamental issue in globalization. It's the changing shares going to capital and to labour on a global basis. The data in Canada show that family real living standards haven't risen much over the last ten to fifteen years.

That's the problem. The question is, what are the causes and the prospective solutions? It's hard to pin the cause on free trade, NAFTA, or even the WTO. I think the real cause of low income in Canada is low productivity growth rates. There's a gap there between us and the United States that's been growing for twenty years now. Our research indicates that the gap is now to the point that Canadian incomes are 20% below American incomes across the board.

If you compare Canada to the fastest-growing industrial countries in northern Europe, countries with advanced social welfare systems like Sweden, Finland, Denmark, and Norway, the gap's even wider.

A recent report from the World Economic Forum ranked Canada 16th in the world in competiveness. Most of the countries ahead of us were industrial countries in northern Europe with well-developed social welfare systems and high corporate taxes.

The WEF, which is not a socially oriented organization but a business one, pointed out that the massive investment in education in northern Europe is what's giving them the critical advantage. So there clearly is an issue.

The areas we need to examine, which is what we'll put into our report, are things like why we have a punitively high marginal tax rate on the working poor. The marginal tax rate on people who earn less than $40,000 a year in this country is as high as 90%, because they are rolling out of social programs into our tax system. We're taking away the social benefits faster than we're allowing them to earn income. This is from the C.D. Howe Institute, so Jack Mintz and people like Finn Poschman get the credit.

That's a fundamental fix—not a federal fix but a national one. The marginal tax rates are highest in Ontario and Alberta. Why are we punishing these people for going back to work? Why aren't we raising basic exemptions and allowing more of a bridge as we roll them out of EI and other forms of social welfare into the labour force?

I would strongly resist the idea of adding on more baggage directed at social and environmental conditions. We did some of that in NAFTA. There was an environmental sidebar within NAFTA. Perhaps it wasn't adequate; you can judge that for yourselves. I know that in many other cases we're now using that as an excuse to avoid free trade. We're actually using it as another form of trade barrier.

The Europeans are perhaps the most overregulated people in the world. It's hard to sell anything in Europe unless you meet European standards. Perhaps you don't know that Canadian sales from our affiliates in Britain, for example, are eight times our exports to Britain, because the only way we can actually penetrate the barriers around Europe is by becoming European companies. We're having to change our model to cope with that sort of stuff.

I don't see more barriers as a solution. I would much rather see better-designed public policy in Canada. If it's a matter of addressing low incomes, let's think about fundamental reform to our tax system.

Mr. Ben Tomlin: Again, most of my points have been said. I think it's important to note that if we look at where would we be without NAFTA, it's pretty clear we'd be worse off.

If we want to look at discrepancies in income or standard of living between the rich and poor in Canada, it's not so much NAFTA we need to address as it is our internal policies, such as our marginal tax rates on the working poor. We have to look at what's going on inside Canada, as opposed to looking to these trade deals.

That's all I'll say for now.

The Chair: Thank you.

Mr. Myers.

Dr. Jayson Myers: Let me say I'm in agreement with much of what has already been said. Of course, real incomes have fallen, especially during the 1990s. For many families, real incomes are lower now than they were then. Certainly real incomes now are higher than they were back in 1990, but I'm not so sure the reason for that is free trade.

In fact, if I look at the manufacturing sector from 1991 to 2004, there were 600,000 net new jobs created in manufacturing in this country. Those jobs wouldn't have been created if it had not been for the ability of manufacturers to expand their businesses, particularly across North America. Granted, there were significant job losses in the transition period between 1989 and 1991, but we're still about 250,000 net new jobs ahead of where we were in 1990. In fact, we were at record levels of employment in 2004 in Canadian manufacturing. The fact that the Canadian dollar has gone up by 50% over the last three years has taken a big whack out of employment, but that's not the result of NAFTA or free trade. It is a result of global financial markets, yes.

Echoing what everybody else has said, I think the key factor and one of the reasons why our real income levels have tended to lag is because we had a huge deficit and a huge debt that we had to pay down that was threatening the fiscal viability of this country . That's what we did during the 1990s and that's why real income growth has lagged in this country. I can tell you real income growth in the United States is going to take a similar whack over the next ten years.

We do need, in order to make sure that Canadians can participate in the type of business that is going on today, much more investment in skills and in workforce capabilities and much more investment in productivity. When you look at Scandinavian countries, the European countries, you find two things in their tax system. One is that the tax system does not penalize entrance into the labour market. Secondly, their tax systems—and this may seem strange, but it's true—are some of the lowest in the world in terms of business investment. The Scandinavian countries, Ireland, all have very low tax rates on business. That allows businesses to invest in new technology. It means they're growing their businesses and providing the tools and technologies for their employees to grow their business. I think that's where we really should be focused.

Your major point is on international business policy. Do we need different agreements in different markets and a different style of negotiating? Yes, we definitely do, because what we're trying to achieve in North America is different from what we're trying to achieve in China, India, Brazil, or in Australia and Europe. We have to deal particularly with the non-tariff barriers that Glen has mentioned.

I don't think we can deal with these non-tariff barriers on the basis of the trade agreements that we've traditionally tried to negotiate. We need different approaches to this. We need approaches where we can have guaranteed access into markets that get at the regulatory differences, the regulatory barriers, in particular.

● (1015)

The Chair: We only have half an hour left. I have on the list Mr. Cannan, Mr. Temelkovski, Mr. Maloney, and Mr. Williams. We also have a list of questions from the researchers that were prepared to focus discussion, and each of you received a copy of that.

It would be really good if we could get to some of those questions as well. There are three suggested by the researchers that we particularly need answers to. I'll leave it to the individuals asking questions, except I may ask some of these questions if I see them not being asked along the way.

Particularly, what should we be doing to deepen the North American economic relationship regarding bilateral commercial deals? We haven't had one signed in five years. Why not? Which country should we be dealing with? Is Canada too dependent on the American economy? Should we be aggressively diversifying, or is diversifying too risky? Just think about that.

Mr. Cannan, I will go to you. Go ahead, please.

Mr. Ron Cannan: Thank you for the opportunity this morning to participate in this interesting discussion, Mr. Chair.

I come from British Columbia. As you know, Mr. Chair, one of our biggest challenges in western Canada is the lack of human resources. I know the population of our country is aging, so I believe a unilateral or integrated domestic approach in getting our own house in order first is very important. Our government has tried different initiatives, with $70 million over two years to help the older workers and the trades program. I also mentioned debt repayment and trying to get our house in order. Those are all important initiatives.

From where we are with the lack of discussions at the WTO, as Mr. Menzies brought up, the reality comes with regard to NAFTA. We had some of the trade officials here on Tuesday. We talked about the fact that 97% of the trade to date with NAFTA has been dispute-free with regard to more or less positive negotiations, as Jayson mentioned.

There has been a net increase in workers. My honourable colleague beside me mentions the 1989 statistic pretty well every meeting, and you validated that with the comment about how much better off people are with the 250,000-plus net new jobs. But that reminds me of what my stats professor always said. Statistics are interesting in what they reveal but vital in what they conceal. You have to make sure that both sides of the perspective are presented.

In terms of where we're going with NAFTA, I just throw this question out. It partners in with some of the researchers' questions about our competitiveness and pursuing closer integration within North America.

I'd just ask our witnesses here today if, on the basis of productivity and innovation and competitiveness, they think North America is really where our capacity for competitiveness lies. Is it our biggest opportunity?

● (1020)

The Chair: Mr. Tomlin, do you want to reply? I don't want to put you on the spot if you're not ready.

Mr. Ben Tomlin: I do believe North America is the area where we're going to have the greatest productivity gains. Although we do have the NAFTA, there are still several non-tariff areas that need to be addressed, and one is regulatory harmonization. We're dealing with the U.S., but all of our small businesses that are trying to access the U.S. market are having to deal with so many barriers.

The question is whether we want to go after regulatory harmonization with the U.S. The issue is whether the U.S. is going to be willing to negotiate with us. Or is this something wherein we're just going to have to adopt the U.S. system? It looks as though there may be room for negotiation, but basically we're going to have to adopt the American system. The question then is what the effect of that will be on the Canadian economy.

There are several other barriers, but I think that's the most important one, and I think we do have to look to the North American market for our productivity gains. That's where all of our trade is and that's where our businesses function. We can set up deals with other countries, but really businesses themselves are going to dictate where they function, and they've shown that by operating within the North American market for the most part.

I think this is the area where we have to make it easier for companies to function. Doing so is also going to affect the transference of technology, but small Canadian firms grow in productivity faster, so I think this is what we need to focus on.

The Chair: Thank you.

Mr. Hodgson is next.

Mr. Glen Hodgson: I have talked a bit previously, so I'll be very brief.

Effectively, I think we have to think of the world in three big blocs right now. There's the North American bloc, where we're very lucky to live in arguably the best neighbourhood in the world.

Ben's absolutely right. Our future lies in deepening NAFTA. Non-tariff barriers are the critical next issue. It's very hard to negotiate with the Americans, though, if we don't have our act together at home.

One of the other messages in our forthcoming work is that we need to create a single Canadian market when it comes to regulation and deregulation. We need to eliminate all the crazy barriers that exist between provinces, and we need to have much improved alignment between the federal and provincial levels when it comes to regulation of everything, frankly. The number of examples you can give of dumb regulation in this country are absolutely staggering.

So there are three big blocs. One is North America. Which other bloc do we want to negotiate with? Do we want to negotiate with the Europeans, who are very inward-looking? There is expansion eastward in Europe. The Europeans are very much looking to the newly emerged economies in eastern Europe, but I believe there is a relative barrier around Europe that makes it very hard for Canada to do more trade with Europe.

Or are we going to look west, where the growth rates are spectacular? China is going to grow at 8% to 10% a year for the next 20 years. India is 10 years behind China, and it can grow faster than that potentially in 20 to 25 years.

I think there are huge inroads that could be made, but it will really require a fundamental shift in attitude in Canadian foreign policy and in our entire thinking toward Asia. Right now, in fact, our market shares are falling in places like China. We've actually seen our share of both trade and investment decline over the last ten years, because we don't have a plan.

So I would argue very strongly for thinking of going forward with a twin-track policy. We deepen within NAFTA, and we start to think about how to expand into the very rapidly growing Asian market.

● (1025)

The Chair: Mr. Hodgson, just before we go to Mr. Myers, your comment that we have to get our act together in terms of interprovincial trade is an interesting one. I was interprovincial trade critic for the Reform Party back in about 1996-97, when the only agreement on internal trade was actually very weak. I talked to people who owned several companies and who were actually preparing to move them—some did—to the United States so they'd have easier access to other Canadian provinces. That's how silly it is. And that's where we're at.

It's an excellent point. Thank you for that.

Mr. Myers.

Dr. Jayson Myers: As you would know then, Mr. Chair, it's very difficult to drive a truck across this country, because you face different transportation regulations in every province. As a result of that, a great deal of our trucking goes through the United States. So yes, solving the interprovincial trade issue is extremely important, particularly now.

Let me make one very general comment about the direction of international business policy. This should not be driven by policy; it should be driven by where the business is. The business is within North America. Businesses are expanding elsewhere, but the diversification of our trade policy should be driven by where the business opportunities are.

The second thing is that I agree we need a very different approach within North America. We have to look at things like.... And this is outside of the NAFTA. We have to deal with this differently. Most of our commerce with the United States is problem free, but a great deal of the commerce between Canada and the United States, particularly on the part of small business, is not duty-free under the NAFTA. The administrative costs, the rules of origin, and the low tariff rates we already have make it far less costly for companies not to take advantage of NAFTA duty-free rates. They do that by paying the low tariff.

We have problems within the NAFTA around rules of origin, many of which are very restrictive. For instance, there is one manufacturer of equipment in Canada that is prevented from exporting duty-free into the United States because of very protective regulations written into the rules of origin—there is about one part in that machine that's manufactured in Europe. That doesn't make sense to me. That's the type of thing we should get rid of. We have to do that in negotiation with the United States.

Ben's point about regulation is right on. We have regulatory barriers within Canada. We should look at cases where we really have to be different and make sure we have effective regulations there. But in lots of areas, like the deodorant issue, I frankly don't see why we need different regulations in Canada. We have to look at that, but we have to do it on a targeted and case-specific basis. That means much more intense negotiations with the United States.

We're seeing a lot of restrictions right now in the American market, in the form of "Buy America" and procurement, and in the form of ITARs and the restrictions placed on people who can work in Canada's defence industry.

We're seeing the border regulations becoming more and more restrictive. I'm very concerned that these are becoming non-tariff barriers to our access to the U.S. market. The border issues are extremely important. We have to sort out the transportation infrastructure and the complexity of the regulations around the border.

All of that is important. A lot of this is being negotiated within the context of the security and prosperity partnership, and we have to make sure we take a leading position in that. My feeling is that Canada is following right now. We should be much more aggressive.

The other comment I would make about North America, though, is that when we look at issues in Canada and the United States, we tend to look at bilateral or trilateral issues within the NAFTA. The fact of the matter is that North America has some very common competitiveness issues they have to deal with if they're going to be competitive globally. Everybody has common issues across North America in terms of upgrading the skills of our workforce, in terms of improving productivity, and in terms of making sure we have the type of investment systems that are necessary to grow. We're facing challenges, globally, from Asia and from other markets. Unless we as North Americans get our act together, it will make it very difficult for us to compete.

With respect to the other part of our negotiations with the United States, I think it's not just these bilateral issues, but common North American issues, where we can develop common policies. Unless Canada takes the lead in doing this, we're going to be followers, and we're going to lose.

● (1030)

The Chair: Thank you, Mr. Myers.

We'll go to Mr. Murphy next. We can go to about five minutes to eleven with this, because Mr. Julian has graciously taken his motion from today off the floor—only one was on the floor. The other one he can choose to bring forth any time he wants, and he's not going to do that today.

We'll have about a five-minute discussion on Bill C-24. That's all, I expect. And then we can have the informal lunch at 11 o'clock still, just so you know. All committee members, staff, and the other guests appearing are welcome to stay for that lunch.

The list is now Mr. Temelkovski, Mr. Maloney, and Mr. Williams.

Mr. Murphy, we'll finish with your response to Mr. Cannan's question on that issue.

Mr. Michael Murphy: That's great, and I'll be brief, Mr. Chair.

Just in terms of Mr. Cannan's question, there are a couple of questions there. He made an opening comment about skills, and maybe I'll just come back to that at the end.

I have just a quick remark on the importance of the North American relationship. As I mentioned at the top of my remarks today, call it first among equals, call it whatever you like, it's the pre-eminent relationship, and from our membership's standpoint, it's where you have to maintain focus.

There were two comments I was going to make. One was in the area of regulation, and you've heard lots about that already so I won't get into any more detail. The only comment I would add there is that if we say you need to be strategic about this whole process, whether it's dealing with the United States, dealing with our full NAFTA partners, or thinking about how we should do multilateral trade negotiations, being strategic is the right way to go.

If you're going to do that, I think we have something here in terms of the SPP, the security and prosperity partnership that has been launched amongst the three NAFTA partners. We're very hopeful that in bringing together a lot of these initiatives...and I know there are some 300 initiatives in the SPP, which makes it a little daunting. But when the leaders of the three countries got together earlier this year they came up with five priority areas, and regulation is in that list. I'm happy to see that.

So is the border. Jay has already mentioned the border, and that was the second point I wanted to mention. I don't think you can spend enough time on this as a subject of importance for us.

What is the context of that discussion today? There are two very different ones. One is ours, which is very much interested, from a commerce standpoint, in building on security. But we're dealing with our partner south of the border, which is fundamentally focused on security issues. That's where it starts for them. It doesn't end there, but we're the ones pushing uphill on that issue with America in terms of getting the movement of people and goods as part of the discussion and into a security agenda. So we need to support the security agenda and we need to keep battling away on the...and I think the SPP will help us in that regard.

Those were two comments I wanted to make, and if there's time later I'll come back on skills, Mr. Chairman.

The Chair: Thank you, Mr. Murphy.

Mr. Temelkovski, go ahead, please.

Mr. Lui Temelkovski: Thank you very much, Mr. Chair.

We've heard a lot about border issues. We've heard a lot about interprovincial issues. You've mentioned the Pacific Gateway, the railways, the transportation, and the ports.

We were recently in Vancouver and had a presentation from the port authorities. They told us in no uncertain terms that they're definitely not capable of dealing with any more incoming trade unless we fix the infrastructure within Canada.

Can we increase our trade 20%, double-digit, and expect our current infrastructure to manage it? I think the answer is no.

Do we have the labour skills in force that we need, and will we have them in the next ten years? The answer is no.

Can we move our goods to the United States faster, as they're doing in Europe?

Borders are gone. We as Canadians go over there, and we try to drive between one country and another. We slow down at borders, and they flag us to go faster and faster, which means trade is moving faster and faster.

What are we doing here? We're talking about fences with the United States. We're talking about providing guns to border guards. We're talking about passports. Do you not think this is contrary to trade? I would think it is.

On a small scale, if I need to import a bag of beans to Canada and then transport it all across Canada once it gets here, and if I know I can't do that...before we go outside, we'd better look inward and make sure that our own gate is fixed, going out and coming in. We have labour issues. We have paper issues in terms of following all the trade going in and out. We saw that with Bill C-24. There will be more paperwork that needs to be done. How ready are we for that next step? That's one part of the discussion I'd like to pursue.

The other part is, should we be trading with big economies such as China, Brazil, and India, or should we, at the same time, be trading with other economies?

I was in business for twenty years, and my experience has told me that we build trade, commerce, and relationships. Every time there's a new president or prime minister, we look to see who came to see them first, or who he or she went to see first, to build what? To build a relationship. In Canada, we have so many people of so many countries who have relationships with so many countries. Those are the natural resources that Canada has and that we're not taking 5% advantage of.

Trade, for us, is very easy to do around the world because we can speak their language, we understand their culture, and we understand the way they do business. It's very easy for us to do. But can we get our house in order here, build up the capacity in Canada to be able to bring all those goods in and to be able to ship them out? At this time, I can't unequivocally say yes. Rather than pursuing large economies for trade, maybe we can start with smaller economies. You see, small economies of twenty years ago are big economies today.

● (1035)

As Ben mentioned, the long-term plan would be good if we start with the smaller economies. Maybe some of them will become the giant tigers we face today.

The Chair: Thank you, sir. You have made some important comments and asked some important questions. Let's see if we can get the responses to focus on the issue of which countries we should be looking at next for bilaterals or better trade relationships.

Mr. Murphy.

Mr. Michael Murphy: I think there's a lot of good comments there to chew on.

With respect to the North American situation and our relationship with the United States, we have an integrated economy in many ways, but we have a border between us. And there's the challenge. Capital is very mobile. For companies thinking about investments around the world—and we talk to them all the time—the border is a very big issue. So we have to get that right. We need to think about how, in light of the border issue, we can ensure that our existing marketplace continues to develop.

One issue we've been raising with the government—and we're trying to get some traction on it—is this notion of coming up with a contingency plan for a shutdown at the border. How do we restart? Who's involved, and who gets priority? We have done a lot of work on this, and we have created some principles on which to base our response. The Canada Border Services Agency and others have been working with us on this. We think that's exceedingly important.

With respect to activities outside North America, I made an opening comment about focusing on the WTO. Our reality with the WTO dictates that we also have to think about what else we're going to do. Bilaterals are a huge part of it, whether it's with CA4 or Korea. We have those on our radar screen.

There's also China and India. We recently completed a major piece on China, which I think we circulated to the committee. We're about to do the same thing on India. Both of those markets present significant challenges for Canada with respect to our share of investments and trade. They're both hugely important to Canadian investors and Canadian companies looking to do business. So we have to have a priority there as well. We need to ask ourselves how we are going to do this strategically.

● (1040)

Mr. Ben Tomlin: I want to go back to the issue of going after small markets, as a way of testing the waters in trade. This goes back to the comments I made initially and would fall into the category of Canada following its own bilateral deals.

We want to decide whether these deals would be strategic, in the sense of creating a Canadian brand or style of trade agreement, or whether we'd just go after markets that are of economic importance. We've tried to do this in the past. We signed a deal with Chile—a small economy where we could test the waters—and trade with Chile has since gone down. A lot of times when we sign deals with small countries we may find that the trade just isn't there.

Most of our trade is going to the U.S., the E.U., China, and Japan. I don't know if there's much to learn from signing deals with small economies, other than the deal itself, which could be a Canadian style or brand of agreement that could work towards liberalizing multilateral or regional agreements. For example, signing deals with Chile and other South American markets could help to open up negotiations in the FTAA. So in that sense, there is a point to these small agreements. But in terms of economic gain or a learning experience, there's not a lot of evidence that it's going to do much for us.

The Chair: Mr. Hodgson.

Mr. Glen Hodgson: Following along the same thought, you're absolutely right, relationships matter, but so do the rules, and so do things like air routes and transportation linkages. We have the benefit of being a settled country. We have immigrants from around the world. Arguably we have not taken advantage of the language knowledge, the local cultural knowledge, all the things that we have, whether it's with central Europe or eastern Europe or north Africa or Asia. There's a tremendous opportunity for individual businesses as well as government policy to get in-house capacity—actually have a language expert, somebody who knows the Polish market or the Chinese market—and do things on a very practical basis.

So yes, relations do matter, but so do a lot of other things, and that really applies to the big and small issue. I think the really critical factor is whether you have grounds to actually gain some sort of an advantage, actually integrate in some way, so your businesses can find a reason for actually doing business with those markets.

The Chile example is very good, Ben, because we dropped the tariffs and nothing happened, and nothing happened because we really didn't find a way to fit together the supply chains of Canadian companies and Chilean companies.

That's the real fear that I have in China, Mike. It's that we really haven't found a way to integrate China into our supply chains or integrate Canadian companies into Chinese supply chains. We're seen as a provider of raw materials. That's it. We're buying more and more Chinese stuff. We have a huge trade deficit, of course. It's up to almost $20 billion now. The Chinese are finding ways to fit into our supply chain. We haven't found ways to fit into theirs.

If you want to make progress on a bilateral basis, you really have to find the critical success factor—what do you have to offer on a firm basis to that other country and what do they have to offer to you?

● (1045)

The Chair: Thank you.

Mr. Myers.

Dr. Jayson Myers: I'm a little worried that the problems of the global marketplace are sometimes so daunting. We all know what the issues are, we do analysis really well, and then when it comes around to doing anything, we all throw up our hands and say we can't do anything. I think we have to focus on practical steps that can be done.

One of the issues here, which I think is very important for this committee, is that maybe trade agreements aren't the best way, necessarily, to encourage international business—or at least traditional trade agreements, as Glen was pointing out. Negotiation of air and transportation agreements is crucial; the negotiation of investment agreements is crucial; tax agreements are pretty important. It just means that maybe we should be looking elsewhere to deliver the types of infrastructure, the types of market access, and the types of business services that are necessary to grow our business.

We're negotiating a trade agreement right now with South Korea. For many sectors of the Canadian economy this agreement really doesn't mean very much, because tariffs are already non-existent or very low. The problems in South Korea are in non-tariff barriers, the regulatory barriers, and I don't think this trade agreement is going to be able to remove those.

Those are some of the issues: how do we negotiate multilaterally, bilaterally, regionally on the real restrictions to trade, without giving up any leverage we have right now? I hope the trade agreement with Korea is successful, but it's not going to be successful unless we can get guaranteed access to the Korean market.

That's just one example. We wring our hands because we have a rising trade deficit with China—and North America has—but what that really means is that you can buy a container in Canada or rent a container in Canada for a tenth of the cost you can rent it for in Shanghai. Dofasco and Stelco in Hamilton can ship a tonne of steel at lower cost to Shanghai than manufacturers in Shanghai can buy it from northern China.

Why don't we take advantage of that? And what do we have to do in order to do it? What you find is that there are a lot of regulatory and tax issues that railways are faced with that don't allow these containers to move easily within North America. Maybe we should be looking at tax and regulatory issues within North America that would allow us to take advantage of these low-cost containers, so that we can fill them with product and ship them to China.

Why are the tax and regulatory issues constraints? It's because those regulations have been put in place since the 1800s. It's time to review them. I think there are practical things we can be doing, which government should be taking the lead in identifying.

But in all of these cases, policy and the federal government cannot do it alone; they all require that the ports, the railways, the truckers, the customs people, the security people in this instance, be involved. Nobody is going to do it unless there is some leadership, a vision, and a strategy aimed at practical outcomes, and I think those outcomes have to be in response to where business is going.

We do a lot more business with Australia and Africa than with a lot of Asian countries, so why are we negotiating trade agreements necessarily with Asia? Why can't we look beyond it and figure out what has to be done to enable the international business that is actually going on? Again I don't think this is led by policy; it is led by finding what the problems are in business and taking the lead in providing practical solutions, bringing the right people to the table who have to be there to get those solutions done.

The Chair: Thank you.

We are down to about five minutes before we need at least five minutes to discuss Bill C-24.

Apparently we could continue this. At eleven o'clock we could get our sandwiches and food and come back to continue the discussion as it has been going, for at least a while—maybe a half hour or so. Does that sound reasonable?

Mr. Hodgson, you have to leave at 11, I understand, but we'll continue with the other three, if that's okay.

All right. It sounds as though everybody else can stay.

We'll now go to Mr. Maloney. I know it's been a long wait.

● (1050)

Mr. John Maloney: The consensus of our panellists is that our trading future predominantly lies with the United States and that we should nurture it and expand it. The United States has a galloping debt, and my concern is that if the U.S. falters, we will fall. We rely on it so much. If their economy declines, will we be more seriously impacted here in Canada?

This then leads us to the two-track suggestion, that we should be looking at China, Brazil, and India, but Mr. Murphy ended his last commentary with a question: how do we strategically get into these emerging nations?

The question would be, are we concerned about too close a contact with the U.S. from a trade perspective, and how do we strategically get into the emerging markets of Brazil, India, and China?

The Chair: We'll start with Mr. Murphy.

Thanks, Mr. Maloney.

Mr. Michael Murphy: I'm not one of those who would stand up and say we're too close to the United States in terms of our membership and their desire to continue to do business with the United States. One of the factors we haven't talked too much about today is the mix of companies and the size, in particular, of companies in Canada. As we know, small and medium enterprises form the bulk of our membership—obviously, because that's what the Canadian business community looks like. We have few very large firms, though we have them in many sectors of the economy. But we have lots of small firms, and they have their own challenges, even dealing with the United States, for a number of reasons that we've covered here today. Some of these would apply equally to larger companies, and some would be unique in terms of the nature of small companies and trying to do business outside of our own borders. From that standpoint, I think there's still more to be done vis-à-vis the U.S. Whether you want to use SPP, as I've suggested, and the 300 initiatives there, focusing on important things like how we can do better with the border and how we can fix—that wonderful phrase—the tyranny of small differences on regulation with the United States...I think that's beautifully said. All of those still need to be front and centre.

In terms of dealing with other economies, we're in an incredibly competitive game with respect to that. Looking at bilaterals, I think the numbers I saw recently show that our friends south of the border have market power, if I could put it that way, in terms of going to other economies and saying, “Let's negotiate a free trade agreement.” I think they've put about a dozen of them through Congress recently, with three more ready to go and another eleven in the negotiating stage. That's a pretty formidable level of activity. We don't have that going on today.

With China, we tried to do two things in terms of the document we produced. One was to acknowledge the fact that the opportunity is there. I think Glen's quite right in terms of saying that there are challenges. There are lots of challenges. Some of them are inside our own economy, in terms of our ability to do infrastructure development to allow us to cope with the opportunity to do business with China.

What we did was we tried to look at all of the aspects of the relationship. One of the things we did end up focusing on—and it's one of nine or ten that we included in our document—was this relationship question that Mr. Temelkovski raised in terms of how well positioned we are in China. One of the things the government made a fairly big deal about in the last year or so was—and it's something we supported—opening more consulates in the United States. That was a good thing to do. We're now in many more areas and regions of the United States than we were before. We don't do a very good job of that in China yet.

There's much more that can be done, in terms of thinking. That's one small thing.

Governance, in terms of the file inside the Government of Canada, needs to be looked at. How are we focused? Do we have somebody who has a primary responsibility to think about leadership on the file? I don't think we're that well coordinated yet. I think we're just getting going on this. One of the reasons we produced our piece was to try to make a contribution to the trade department's thinking on this process that is under way now.

I think there are a number of specific things you could do, but that would be one of the ways, from a framework perspective, to start it.

● (1055)

The Chair: Mr. Hodgson, I know you have to leave at 11. I also know that Mr. Williams has to leave at 11, and he'd like a question.

Could we go to Mr. Williams' question and then go back to other responses to yours after, Mr. Maloney?

John.

Mr. John Williams: I really didn't have a question. It's more of a comment.

If we're talking about trade policy, we have to get it into different layers of the philosophy of what we're trying to do, the strategy of what we're trying to do, and the details of what we're trying to do, and identify the things that detract from free trade and things that enhance free trade.

If we look at the past, at the things we've done well, like the Great Lakes, the seaway, NAFTA, and other great issues that have helped trade in the past...we have to look forward and ask what's coming down the pipe that we need to do. As Mr. Myers pointed out, if we have antiquated regulations that inhibit the movement of goods to take advantage of cheap containers going to the east, I can't imagine why that's still hanging around and why somebody isn't addressing these particular issues.

We have the big announcement on the Pacific Gateway, but what about Halifax and transcontinental shipment? What about the Arctic? Is it going to open up in twenty years, and what is that going to do for us? Where can we get the advantage so that we're thinking ahead and being strategic?

Take a look at what we have. We have resources; we have value-added, which we've ignored for so many years; we have manufacturing; and we have knowledge.

Knowledge is the thing of the future. India and China are really going to give us a hard time on manufacturing. We have to recognize that this is moving to that part of the world. We have intellectual capital, and unless we invest in intellectual capital to ensure that we can trade in what they need, then our standard of living is going to be seriously eroded. Therefore, we have to be much more strategic than just talking about NAFTA needing a little bit of a tweak, and so on.

I look at the past, and the manufacturers' sales tax hung around for years, which was a serious detriment to exports, but nobody bothered to do a thing about it. The Wheat Board is the same thing, a serious detriment to value-added. Nobody has been doing anything about it.

The Auto Pact was a great thing, and now we have a bottleneck and can't get our stuff across the border. Who is doing something about that? These issues have been around for years and nobody is doing anything about them. So when we talk about a trade policy, we should identify these things, address them, and fix them.

The Chair: Thanks, Mr. Williams.

Those bells aren't because of votes. There was a fire alarm in the Centre Block, and people are returning now—just so you know.

An hon. member: Is the fire over?

The Chair: No, the fire is still raging madly, but we don't have to worry about it. We're in the West Block.

Go ahead, Mr. Hodgson.

Mr. Glen Hodgson: I wanted to close, in fact, by picking up on Mr. Williams' comment. In fact, Ben and I did a paper together as co-authors, because he worked with me at the Conference Board last year. It was a paper on services exports. It's ironic; we've talked for an hour and a half now and we haven't once talked about services, and that's why we wrote the paper.

The paper was called *Opportunity Begins at Home*, and the core message was, if we're going to expand things like services, which is 70% of our GDP, it won't be through trade agreements, Jay. Arguably, yes, we need feet on the street in the Chinese cities, but in fact it's going to start by domestic reform.

I guess that's a good wrap-up theme for so much of the discussion, because we pointed to unilateral action within Canada, the fact that we're not prepared to actually talk about free trade in things like health care services, or education services, or transportation services. We tried to push forward the idea—and we were being a little bit radical in this—that perhaps through unilateral action or by taking real initiative on getting our act together within Canada, that would actually position our service exporters, which are potentially massive, to play a much, much bigger role within the world economy. That's where the real value-added is down the road. It's not selling rocks and logs, and it may not even be selling automobiles, but it might be selling brain power.

I know the Chinese are investing in brain power as well, and so are the Indians, so are the Europeans, and so is everybody. But you know what? We don't have to dominate the entire global market for brain power. We have to find the niches where we can do well. Our share of global GDP is 2%. Imagine if we found the right 2%, the best 2%, to actually create wealth on an ongoing basis. We're going to talk about this in our report as well, which will come out in early January.

The Chair: We very much look forward to that report.

Mr. Hodgson, I know you have to leave.

● (1100)

Mr. Glen Hodgson: Yes, in five minutes.

The Chair: Just leave when you have to. Thank you very much for coming, and we look forward to your report.

Mr. Glen Hodgson: Thank you for the opportunity.

The Chair: Is the *Maclean's* version of your report kind of like the *Reader's Digest* condensed version?

Mr. Glen Hodgson: It's a preview.

The Chair: Almost a whole issue dedicated to this...that sounds fascinating.

Mr. Glen Hodgson: It's in their own words, of course, because they're trying to reach a bigger audience than we normally aim at.

The Chair: Okay, thank you.

I notice lunch isn't here, but we'll suspend for maybe five minutes.

Gentlemen, you can stay at the table, or you can take a break if you like. We will have some very brief discussion on our business for Bill C-24, the Softwood Lumber Agreement, and it may take very little time. We'll do that, then we'll have lunch and continue the discussion.

So perhaps the members could stay for a few minutes for discussion on Bill C-24 and what will happen on Tuesday with that.

We suspend. I don't know if that's the right term because we're going on with our meeting.

On Bill C-24, there are really only two things I have to say. The department officials, of course, will be the first witnesses to come on Bill C-24 and they'll be here on Tuesday. That's the standard procedure. The other thing is it's going to be important in this discussion, and as a committee we've discussed this before, to stick with the implementation agreement and not to get into debate on the Softwood Lumber Agreement. Of course, that agreement has been signed and it's a done deal. Not only that, Parliament has passed the money, approved the spending. Clearly that's been agreed to.

What we will be focusing on are expert witnesses giving advice on the implementation agreement. We have four witnesses as well as the departmental officials who have been suggested. Three are from Mr. Julian, and one, I'm not sure from whom. The three from Mr. Julian are Elliott Feldman—we've had him at the committee before—Steven Shrybman, from Goldblatt and Mitchell; and Darrel Pearson, from Gottlieb & Pearson in Montreal. We can decide how to arrange those. We also have the Maritime Lumber Bureau because they have some technical concerns about the implementation agreement.

Any discussion on this?

Mr. Julian.

Mr. Peter Julian: Mr. Chair, I thought we had agreed to go on a strictly legal basis. If we're talking about technical implementation and the Maritime Lumber Bureau is invited, then there are also B.C. organizations, I think, that would want to approach it from the same standpoint. It enlarges the scope of what we discussed. I'm not opposed to having the Maritime Lumber Bureau here at all; it's just that I don't want to disadvantage other industry groups that would have similar comments to the Maritime Lumber Bureau.

The Chair: Maybe I misspoke. They do want to come to deal with the legal aspects of the agreement itself.

Mr. Peter Julian: If you don't mind, Mr. Chair, I'd like to take that under consideration and get back to folks in my part of the country.

The Chair: Yes, Mr. LeBlanc.

Hon. Dominic LeBlanc: Mr. Chair, perhaps I can help.

Colleagues, on that specific issue, and I don't pretend to speak for the Maritime Lumber Bureau, my understanding is they are in discussion with government officials and some government members. There appears to be a language issue. The language of the agreement in one particular sentence is not reflected in the implementation legislation. They have some legal advice that there's a phrase they would like changed. They're hoping the government member would bring an amendment to that effect. I don't think we need to hear from them. Again, our clerk could check with them. I saw them this morning and that's why I was a few minutes late. I didn't understand they wanted to come before the committee.

I respect exactly what Mr. Julian said. Our intention was to keep the study to the strict legislation, and frankly, this discussion this morning and the one we had on Tuesday are interesting enough. If we want the committee to look at some of these other issues, our inclination would be to do a study of the legislation, but not to procrastinate and not to drag it on. I think the concerns of the Maritime Lumber Bureau could be answered in an amendment that may come from the government with respect to a language issue and they don't need to appear as witnesses. Obviously, if they can't come to an agreement on the language—we don't want to go into that now—then they'll probably push to come here. If we open that floodgate, then we're getting away from the initial discussion of Mr. Maloney and others.

● (1105)

The Chair: You could well be right, Mr. LeBlanc. I appreciate that comment and we'll look at that. Maybe it can be done in that fashion. It's a good point and maybe we can deal with it like that.

Mr. Peter Julian: That's if they choose to come. As I say, I'd like to take that under advisement from some folks in my region.

The Chair: I'll let you know about that. I don't know enough about it specifically to know whether they really want to appear or just want their point dealt with. And it is a legal point.

I will let you know, Mr. Julian, if that's all right.

Is there any further discussion needed on that?

Yes, Mr. LeBlanc.

Hon. Dominic LeBlanc: I just want to make sure, Mr. Chairman...is it your intention that on Tuesday the departmental officials will be here and then on Thursday the other four persons you identified will be here, or would they all be on the Tuesday?

The Chair: Only three will be needed. It will be in a panel.

Hon. Dominic LeBlanc: And it would be on the Thursday?

The Chair: Yes.

Hon. Dominic LeBlanc: Okay. So the two meetings next week would focus on Bill C-24 in the order you described.

The Chair: Yes, and then we should be able to get to clause-by-clause the week after, if that's not the break week.

It isn't? Good.

Mr. Julian.

Mr. Peter Julian: Mr. Chair, the three witnesses whose names I have submitted are all folks with strong legal backgrounds and connections to the lumber industry. I'd like to suggest we have the same kind of extended time that we've had both Tuesday and Thursday of this week, making the meeting run from nine to noon next Thursday for those three witnesses. They will be bringing forward a lot of material, so it's better, I think, to provide for the additional time. If we feel we need less time, we can always scale it back, if everyone's questions have been answered, but my own preference would be that if we have all three of them together we have an extended sitting.

The Chair: Mr. Julian, I certainly agree with you that if more time is needed we should look at extended sittings, because there is a time sensitivity to this whole thing, as you know.

Can we come back to this? It's fine with me. Is there any objection to it, if we choose to go this way?

No objection? Okay.

Still not seeing lunch, let us just continue with the panel, then. It may be half an hour before lunch is here, so let's just go ahead.

Mr. Maloney, could you ask your questions again so that we can finish the answers to them?

Mr. John Maloney: It was a sort of two-pronged question.

The Chair: Two-pronged, yes.

Mr. John Maloney: Are we concerned about too great a reliance on the United States? In the event of the U.S. stumbling, would we fall? The other was, strategically how do we get into the emerging markets—Brazil, India, China—especially in light of the decline in our trade now with China?

The Chair: Thanks very much.

Mr. Tomlin.

Mr. Ben Tomlin: There are a few points I want to bring up.

I think there's a bit of a misconception about our reliance on the U. S. A lot of the trade statistics overstate our reliance on the U.S. There was a C.D. Howe report written recently that addresses this issue. I'll just raise the points that were made.

One is that we don't have good statistics on Canadian foreign affiliate operations in foreign countries. There's reason to believe these might be quite high in Europe and in non-U.S. countries, which would definitely mean that we're overstating our reliance on the U.S.

The second one is that we have difficulty measuring services trade. We don't know how this affects the Canada-U.S. data.

Finally, in our trade with the U.S. we have many intermediate inputs that go back and forth across the border several times and are counted each time. There have been efforts to fix this, but there are still things that get caught up, and this ends up overstating our trade relations with the U.S.

So we have to be careful when we're looking at the trade statistics and just looking at the number of exports going across our border.

Another point I wanted to make is that Canada has one of the lowest export market volatilities, even compared with a lot of European Union countries that have a quite diversified export market portfolio. So our reliance on the U.S. is actually a lot less volatile than we might think.

● (1110)

The Chair: Mr. Tomlin, could you just explain exactly what that is? I can guess, but I want to make sure I understand what you're saying.

Mr. Ben Tomlin: Our measurement in terms of export market volatility is just standard deviation movements over the past ten years.

The Chair: Okay. Thank you.

Mr. Ben Tomlin: So the U.S. is a relatively stable market, which is important for us. In terms of looking forward to where our over-dependence on the U.S. can lead to, if the U.S. market stumbles then we stumble too. To rectify that, there are not too many options because the other stable markets we're looking to are the EU and China, with which we're already doing our best to make deals. There's not really any more we can do right now than what we're doing.

In terms of making deals with other, smaller countries, most of them are dependent on the U.S. economy as well, so if the U.S. falls, they fall, and we still have the same effect; we've wasted our time by making deals with other, small countries.

I simply wanted to put those points out there.

The Chair: Thank you very much.

Mr. Myers, forgive us the side discussions. We're dealing with some other things at the same time, but we are listening. We kind of learn to do it with each ear.

Go ahead, Mr. Myers.

Dr. Jayson Myers: It's a skill.

I want to agree with Mr. Tomlin. If the U.S. stumbles, the world stumbles, and it is a concern right now. I think the U.S. deficit, the U. S. debt, the financing of that debt, has to cause us all concern. Looking into next year and putting on an economist's hat, I think the U.S. economy is going to be near or in recession. I think the Canadian economy is going to be very close as well. So this has to be a concern.

I think it's not necessarily an issue of how we then diversify trade away from this—and Mr. Tomlin's correct. When I was in Sichuan in China a couple of years ago, I was hosted by the head of the China Automobile Industry Association, which has important offices and manufacturing in Sichuan province. He asked me if I knew that the biggest selling foreign car in western China is a Canadian car. I said I didn't know that. In fact, if you look at our trade stats, according to the statistics we don't export cars to China. But the biggest selling car in Sichuan is made in Brampton, the Chrysler 300-series. We export that to the United States and then it's reshipped into China through the United States. There are a lot of products like that, and we don't really have a good sense of where we do business around the world because our trade stats don't track that.

The services issues are extremely important as well. When we talk about services, I don't know any product that's shipped—talking about direct services exports—that isn't shipped on the basis of good service, good knowledge. I mean, if you talk about the difference between a knowledge economy and a manufacturing economy, manufacturing won't exist if manufacturing doesn't become a services economy and a knowledge economy as well. Some of these distinctions from a business point of view aren't really relevant, the way business goes on.

Keep in mind that 60% of all of our trade is intra-corporate trade, or linked into supply chains. Now, this is General Motors shipping to General Motors, and IBM shipping to IBM, through the supply chain. That degree of integration means that we're connected into a North American economy, whether we like it or not.

The number of individual companies that are actually doing business around the world is relatively small, and as Mike says, these are usually small to mid-sized companies. They're the Canadian companies that are growing and expanding very rapidly, and those are the companies that we really have to pay attention to.

If I had a choice between negotiating a free trade agreement with China and all of the delays and all of the uncertainties in that, or talking about how EDC can extend its export financing and business financing credits in China, I know which one I would choose if I were a business. It wouldn't be to enter into prolonged ten-year negotiations that are not likely to go anywhere. It would be to make sure we have the types of financing facilities, the types of business service facilities, that will enable my success in China or in any other market around the world.

I think that's where we need to talk about trade policy and focus on the negotiating part, but we really do need to take a strong look at what government agencies, crown corporations, and government departments do in order to build international business activity around the world.

● (1115)

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

On that issue, too, I have Mr. Fitzpatrick.

There's only Mr. Fitzpatrick on the list, and I have a couple of questions. If there's anybody who wants to get back on, feel free to do that. If not, we'll go to the informal part. Hopefully, lunch will be here by about 11:30 a.m. I understand it was connected with the fire alarm, by the way.

Mr. Fitzpatrick.

Mr. Brian Fitzpatrick (Prince Albert, CPC): A book that I read in the last couple of years that I found quite profound was *The World is Flat* by Tom Friedman. To me it's a wake-up call. I'd use the analogy of the convergence that took place with Japan, and the way I see it, with China and India we're on maybe a thirty-, forty-, or fifty-year convergence in absorbing the phenomenon there economically in the world. And for countries that aren't aware of that and aren't becoming competitive, it's literally true that not only will they eat your lunch, but they're going to take away your jobs, and so on.

In the section in his book where he said there were certain things the modern economy should be doing to get in line with this thing, the list of things that we should be dealing with, the negatives, I think he was more focused, from a public policy standpoint, on the United States. But I was just thinking of the list in Canada, and in my mind the list is extremely long on the negative side in this country. I don't really think there's a political appetite in this country to get real on these issues. But I happen to think this guy is onto something, this Tom Friedman, and we've literally got our heads stuck in the sand if we're not willing to take a good hard look at what we're doing internally.

I have a major labour shortage in my riding. People can't get people. This is in Saskatchewan. I have people in other parts of the country raising questions in question period about enhanced EI programs or something, and our employers in Saskatchewan need these people—and we have mobility rights in the country, and so on.

But I'd be interested in comments on some of the things that we have to address internally in this country if we're going to wake up to what I think is a reality in the world, that China is going to be a big factor, not only for the United States but for every country in the world. So is India.

The Chair: Who wants to tackle that one first?

Mr. Murphy.

Mr. Michael Murphy: Sure, I'll throw a few things out to respond to that. I think there are some important points there. I'll mention four things really quickly.

In terms of fiscal policy, tax competitiveness is hugely important. We talked about this issue earlier, in terms of skills and how you get more people into the workforce. We just did our pre-budget process with the finance committee in the last two or three weeks. This is the fourth budget period in which we have raised this issue of the hammering job we're doing on low-income Canadians—basically between $25,000 and $45,000 a year—and the clawbacks on their benefits. In effect, their marginal tax rate, as Glen said earlier, is through the roof.

So there's a potential, in terms of dealing with the skills agenda, where you're completely disincenting people from upgrading themselves and getting into the workforce, because they're just going to pay a heck of a price when it comes to tax time.

That's just one of the tax issues.

I agree with you 100% in terms of EI and the disincentives built in on labour mobility with respect to EI. We spent some time with the human resources committee on that in June. They're doing hearings on employability right now, which is an important issue in terms of getting more people into the workforce. I think our disincentives there that you raise are real and need to be addressed.

Focus the spending, I think, is another one of our themes here. You have to decide how you're going to be strategic in terms of program spending. We have two areas. One is infrastructure, and there are a lot of components of that. We've talked about transportation today, and that's one of the key ones. The other is post-secondary education, in terms of upgrading skill levels in the economy. So make those your two highest priorities.

I won't say any more about regulation and trade, because we've talked about those quite a bit today. I'll let the others have a crack at it.

● (1120)

The Chair: Okay.

Mr. Myers, go ahead.

Dr. Jayson Myers: I agree with everything Mike has said, and the key message of that book is that we have to get our own house in order in North America. It's stunning how similar the issues are, looking at competitive issues not just within North America but within any developed economy. These are issues around skills, investment in skills and workforce capabilities, investment in innovation and knowledge, investment in infrastructure, investment in new technology—all of this is extremely important.

I would say the other message is we have to think about business and international business very differently. Mike and I both have lots of companies in our organization where it's really difficult to talk about trade, because that's not where their business is. I've got Canadian owner-operators, engineers, and designers who are working with Indian engineers who have manufacturing operations in China and in Canada who don't have any product, or the final product doesn't come from Canada, but is shipped into the United States and into world markets. They're virtual companies. People are operating at the same time they're designing a product, and you have designers and engineers around the world working in several different countries at the same time.

You think, what does our R and D tax system say about that? Probably it means that research is not eligible because it's international. How do you classify the benefits in Canada? You look at EDC financing or the benefits on the Canadian side. It's very difficult to know how much value is being generated in Canada, because it's part of an international business. So we have to think very differently about the nature of international business and how we support that.

One final thing. The one area on the trade policy side where we have to pay a lot more attention is in the enforcement of trade rules. Free trade is not just about opening markets, it's also about making rules. We do a really good job defining the rules of the game and we do a terrible job enforcing them, and I'll give you an example: counterfeit product and fraudulently marked product made in Canada. More automotive dies are shipped from Canada to the United States marked “Made in Canada” than are manufactured here. This sends up several red flags to the United States' trade representative, who has already put Canada on the watch list. We're a major exporter of counterfeit and fraudulently marked product into the United States. This is going to become a major problem in our trading relationship with the United States unless we effectively enforce and stop this product coming into Canada.

In 2004, U.S. Customs made 36,000 seizures of counterfeit product coming into the United States; Canada Border Services Agency made six. Even if you scale that up by a factor of ten, you don't come close to 36,000. We don't have the ability to enforce some of these trade rules.

We have a very cumbersome procedure for companies facing unfairly subsidized product coming into the country. We make it very difficult for Canadian companies to bring those cases forward. When they are brought forward to the Canadian International Trade Tribunal, they're often turned down by government. I'm talking about the case of bicycles and barbecues, where, frankly, the sector was sold down the pipe because someone made a decision that in the best knowledge of the officials, we don't produce bicycles and barbecues in Canada. Then we will acknowledge China as a free market economy, which simply puts the onus on Canadian companies to prove there's subsidization in China. In every other product area it's up to the Chinese to show that subsidies are not being applied. That put Canadian manufacturers at a tremendous disadvantage. They were unable to make the case.

● (1125)

On the trade policy side, we're not paying sufficient attention to the fact that everybody doesn't necessarily play by the rules of the game around the world. We have to make sure we're not just protecting Canadian industry, but that everybody is playing the same game.

I'm sorry, Mr. Chair, for going on.

One other issue that always causes a problem is when Canadian companies doing business around the world are frankly used as a pawn for foreign policy. I'll give you a good example. The Canadian government would like to impose export controls on products being exported to Belarus for political reasons—maybe some very good political reasons. The diplomats aren't prepared to do anything. We still recognize Belarus politically, but we're going to stop exports.

I have a member in Quebec who exports agricultural seeds and equipment to Belarus. Their business will be shut down as a result of this. In cases of small countries, why is it that this government penalizes Canadian exporters to make a political point on the foreign policy side that it isn't willing to make on the diplomatic side? Why use Canadian exporters as the pawn for something we're trying to achieve diplomatically?

At the end of the day, we're talking about getting our domestic house in order, and there are issues like that. We have to look at what we are trying to achieve in our foreign policy and our trade policy, and to make sure these are integrated together much better.

The Chair: Okay.

Monsieur Cardin.

I apologize by the way. You were on the list and I missed you.

Go ahead, please.

[*Translation*]

Mr. Serge Cardin: Thank you, Mr. Chairman.

Among the questions prepared by our researchers, one is of special interest to me and I will use it as an introduction to my question.

How can we get better access to those emerging markets — China, India, Brazil — and to the well-established markets of the European Union — Japan, South Korea — in order to stimulate our economic growth?

At the end of the day, when one talks about international trade, globalisation, liberalization of markets, it's all aimed at reaching a certain level of economic growth, let's be frank. Furthermore, economic growth is not automatically equal to consumption. Everyone wants to globalize in the other countries but the other countries want to do it here and, in the end, this leads to a very aggressive competition all over the world. We could compare the situation to an skating rink where, as Mr. Myers just said, the rules of the game are not the same for everybody and, even when they are, they are not necessarily respected by everyone. So, if we have international organizations to ensure some order in the world of trade, perhaps we should also have organizations that would start by establishing some rules and then make sure that they are enforced.

I come back to this because, last fall, I had to do a tour of several regions of Quebec during a an examination of the consequences of globalisation and of some weakened companies. Very quickly, we realized that people were talking about some rules that weren't the same for everybody. When one looks at the big picture, one sees immediately that there are enormous differences in the way labour is treated in various regions. There are also major differences relating to the management of raw materials and of the quantities available in the various sectors, as well as about protecting the environment.

It's obvious that the rules are not the same for everyone. When one begins to mass produce, one cannot always be a major player, especially because of labour costs.

In today's economy, we all know that raw materials are more and more valuable but what is also more and more valuable is added value or what I would call intangible value. The other day, I was thinking about the production of my eyeglasses. Look at the cost of the raw materials. Today, a pair of glasses will cost you about 700 $ but what do they sell you for that? They sell you style, which is intangible, as well as some added value and, perhaps, the performance of the lenses. So, more and more, value is not necessarily related to raw materials but more to innovation and creation. Of course, in manufacturing, you also have to add technological innovation.

It's because of all those components that competition is now at the world level. As long as our objective will be to ensure our economic growth... one can philosophize and make all sorts of technical points but we all know very well that, in the end, within this world market, if we can prosper in some corners of this planet and continue to create wealth and produce economic growth, it's because there are disparities somewhere and because some do not get the benefits of that growth and, instead, contribute to the growth of others. In fact, there's no economic fairness so that some can continue to grow.

A while ago, Mr. Myers talked about government support to businesses for, among other things, increasing their exports. As far as insurance for accounts receivable is concerned, for foreign customers, EDC provides capital protection. So, people feel safe. If I wanted to sell to foreign countries, I believe that I would know that the government can help me and that there is insurance.

● (1130)

Let me give you a very concrete example, Mr. Chairman, which demonstrates that, sometimes, policies developed to help businesses do not always reach their objectives. As an MP, I get life insurance from the House of Commons. As an MP, let's say that I want to fight organized crime and that a price is put on my head tomorrow morning in all the newspapers and that the House of Commons decides to cancel my life insurance.

EDC does the same thing. How can a Canadian business selling abroad have confidence in government programs when EDC can act in this manner?

I won't name names but I know a Canadian company that had a very substantial account to receive from a US company. When EDC realized that this company risked bankruptcy, it cancelled its insurance. We try to give tools to businesses to protect them and to help them succeed the on foreign markets — and they pay their insurance premiums — but, from one day to the next, the insurance policy is canceled and they lose huge amounts of money.

In the end, Mr. Chairman, it's not very easy to find our way in everything I have just said and to develop consistent and integrated policies in all those fields, including government participation.

I have referred often to Mr. Meyers who talked about economists, professionals and great economic thinkers who do lots of studies, produce reports and create theoretical models but, very often, there's no action. This makes me think of a sex adviser who would still be a virgin: he can talk a lot about sex but he doesn't really know what it is and doesn't get any satisfaction from it. I realize that the comparison may not be totally fair but, in the end, it's always action that is more important. The skating rink is big and it's up to us to decide if we want to play rough in the corners or just keep playing in the center where it's easier and where we can continue to invest in sectors where there are bilateral or multilateral agreements.

I believe that this trade policy should really be improved and integrated at all levels for us to make any progress. More and more, as I said, we have to take account of the knowledge economy and, up to a point, of the virtual economy because lots of things are intangible. So, it's up to us to act and to make choices for the consumption of our goods and services.

● (1135)

[*English*]

The Chair: The food has arrived. I will look for responses to the comments from Monsieur Cardin. I have a question and then Monsieur André has a question or comment.

All right. Let's just take a couple of minutes to get the food and come back, and then we can have responses after that to Monsieur Cardin's comment. Thanks.

I'll suspend the meeting for about two or three minutes.

● (1138)

(Pause)

● (1144)

The Chair: We will reconvene.

We'll start with the responses to Monsieur Cardin's comments.

Mr. Myers.

Dr. Jayson Myers: I think, Monsieur Cardin, you've pointed out the advantages of looking beyond high-level trade negotiations to find out how to support the actual activities of businesses in international markets. You are right to underscore the importance of EDC, CCC, and CIDA in this regard.

Mike and I both experience situations like, “Oh, gee, we're going to do a new round of trade negotiations with whatever country”, or “We're going to take a look at the WTO, so can you bring a group of your members together so we can talk about this?” And we go out and ask how many members are interested in talking about it. The problem is, it's really hard to get anybody interested in these broad policy issues.

On the other hand, if we were to announce a meeting about the EDC's adoption of an innovative new line of financing that would address some of the issues facing businesspeople in China, there would be no problem at all in getting companies to attend.

Companies deal with real business issues. That's why I think looking at what EDC, CCC, or CIDA does is extremely important. We must continually make sure that their services back up the needs of Canadian business.

A couple of years ago, we were getting ready for another ED Act review. This was ten years ago, when nobody looked at what the needs of Canadian business would be over the next ten years, and whether EDC was prepared to meet those needs. We spent a lot of time kind of looking backwards at previous problems.

We need to make sure that the activities of agencies like EDC, CCC, and CIDA reflect the changing needs of Canadian businesses operating internationally.

Monsieur Cardin started off by talking about regulatory differences around the world. That is a problem—the various labour and environmental standards that exist throughout the world.

It is important to have an integrated approach between the activities of CIDA and our policies on business development or trade. We have a development agency that should be looking at how to assist countries around the world in improving their environmental and labour standards, while making sure that Canadian business plays an active role in that process.

I'll give you an example of something I think worked really well. We come out with some really great ideas. After the Kyoto earthquake, Canada was one of the first to offer aid, bringing in prefabricated houses. This is one reason our prefabricated housing manufacturers do so well in exporting to Japan today.

In the tsunami a couple of years ago, the Australians were looking at doing something to help in Indonesia. They said, “Let's learn from the Canadians, but let's do it better. What can we do as a government that's really going to be helpful to Australian industry?” So the Australian Ministry of Industry, Science, and Resources, together with AusAID and the manufacturers' and homebuilders' associations, got together and said, “We're going to set up a contest to build a $100-dollar home, and it's going to meet these recommendations—building standards, Internet connections, electrical connections, and so forth”. They not only did it within six months, but they got the cost of the home down to $50.

Now the Australian industry has a modular home with new building materials that they can export around the world. In getting their act together, they looked at the problem, asked themselves how they could work together to solve it, and aligned their domestic, financing, and development programs.

We always seem to be caught in discussions at a very abstract level. Then, when it comes to actually trying to get together to do something, we all throw up our hands and nothing seems to be done.

● (1145)

I think we have a lot to learn from other countries, such as Australia, who, frankly, learned from us a long time ago but were able to actually carry things out.

● (1150)

The Chair: We only have ten minutes left and we have to end on time. Let us just have short responses to Monsieur Cardin's comments. Then I have a question, and then we'll go to Monsieur André, and that should be the end.

Mr. Tomlin, go ahead.

Mr. Ben Tomlin: I'll be very quick with this, but there are two specific points I want to touch on that you brought up.

In this whole issue with promoting growth and trade at home and having trade promotion, EDC is important, but there's also something we can do here to get companies to help themselves. We have serious barriers right now to the growth of small and medium-sized enterprises that need to be addressed, such as tax hikes. As you know, once a firm hits $300,000, they jump up to a brand new tax level, which really creates a disincentive for firms to grow. Obviously, strong, homegrown Canadian firms are important for Canada's trade and economy overall. That issue of the difference in the tax system for small and medium-sized enterprises has been addressed and it has changed, but I think there's more room for improvement.

The other thing I want to talk about is another one you brought up: the fact that Canada is a big producer of value-added goods. There's another issue we need to address here, which is that we need to start discussions for a common external tariff system with the U.S. Right now we have a rules-of-origin process whereby when we bring in a lot of intermediate inputs to create a final product, the product goes through a lot of processes if we want to ship it over to the U.S.

If we could get a common external tariff system, we could eliminate the rules-of-origin law. That would really help to facilitate trade.

The Chair: Thank you, Mr. Tomlin.

Mr. Murphy, do you have some response to that?

Mr. Michael Murphy: This is a very quick comment on EDC, in particular, Mr. Chair, just because, as broad a base as our membership has, we also have EDC as a member. We get to interact with them quite a bit.

Other countries have similar agencies, and you're always trying to get a sense of how you're doing in that field compared with others. I'm no expert on that, but what I do have a sense of is how much EDC seems interested in outreach to our other members. That's a good thing, and we help facilitate it where we can. I think they do a pretty good job of being plugged into the needs of businesses, and I just wanted to mention that.

On the globalization issues Monsieur Cardin raised—and there are a number of them—the interesting thing is the issue of how we get our broad policy suite together that deals with trade and all these other issues we have domestically. That's the central question for all of us. We try to make a contribution in that regard, as far as dealing with parliamentarians and with government more broadly on a wide variety of issues is concerned, because they all, in effect, come together at the end of the day. There is no such thing as having a discussion on one of these without having it impacting the others.

I don't have anything more specific to add than what I said earlier, in terms of where I think the priority areas should be, both from a trade and a domestic policy standpoint, but they certainly have to be looked at together, which I think was one of the points that was being made.

The Chair: Okay. Monsieur André, I guess, doesn't have a question. I have a short comment and question. Then, if you have any short wrap-up comments, gentlemen, we would certainly allow for them.

When the free trade agreement was signed, and then NAFTA, there was a lot of concern about textiles, about the furniture industry, and about how the wine industry was going to be devastated. It's interesting that the wine industry never seemed to miss a beat; it seemed nothing but up, totally against all forecasts. The furniture industry, you were saying today, Mr. Myers, did suffer some very severe difficulties, but now it's many times larger than it ever was before. The textile industry probably—at least to my knowledge—hasn't really done well.

You said we have about a $20 billion trade deficit with China now. I'm wondering if that is necessarily a long-term thing, or whether it may be a short-term thing. As the Chinese economy develops, people become wealthier. They already want top-end goods—and possibly services, I'm not sure. I'm wondering whether that deficit could be a temporary thing and, if Canada is well-positioned to take advantage of this new market that's developing in China, whether it might help our trade surplus with China. Do you have any comments on that?

Yes, Mr. Myers.

● (1155)

Dr. Jayson Myers: Maybe I could start.

Furniture grew and has been very successful because it allowed furniture manufacturers to specialize. It allowed them to focus on better design, better engineering, better sales, better distribution systems, because they were operating in a larger market. This industry is facing some pretty big problems currently, largely because of the impact of the dollar, but I didn't know until very recently that Canadian furniture designers are second only to the Italians right now in international sales. Here's a totally new industry that has been generated around this, and it's a good example of where services and manufacturing work together. So you're exactly right.

China manufactures something like 70% of the world's air conditioners. We have a company in our membership that is manufacturing air conditioners for China. An economist would tell you that's nonsense, but, you know, economists tell you a lot of things.

One of the basic things you learn in microeconomics is that firms will enter a market until profits are driven to zero, or down to the return on capital. For any business, this is exactly the problem you want to avoid. In today's world, the global economy is a world of commoditization, unless you're very specialized, unless you're very fast, unless you're very focused on customers and customer service. So that's where we're going to excel, in that area. That's what the furniture guys did fifteen years ago, and that's what the textile companies that are doing well did.

The textile industry is not doing very well right now because we've eliminated the import quotas. Some companies are doing well. We could make that industry a lot more successful if we, for instance, continued to offer duty rebates on textiles coming into the country. For many companies, that's a very important issue, and it seems we're not doing anything in that area. We could do a lot more to make the textile industry, and the clothing industry, a lot more competitive in the country.

Again, going back to this issue about China, we can succeed but only to the extent that we are specialized, fast, and customized. The reason these guys are doing so well in the Chinese market is because they're not trying to compete head to head with China on the types of air conditioners the Chinese are manufacturing. They had a whole new area of Chinese customers and asked themselves, “What do they really need?” Well, they don't need big residential air conditioners because they don't fit in Chinese apartment buildings and they don't work because of brownouts, but what they do need is a small air conditioning system with a battery cell that allows the air conditioner to work even with brownouts.

They can't keep up with demand in the Shanghai market. They have a base in Calgary. They're expanding their operations both in Canada and in China. It's a good example of companies—and there are many Canadian companies doing this—that are growing in the Chinese market.

That's all I wanted to say.

The Chair: We have about two minutes left, so I'm going to have to go to one minute for comments on my questions or very short closing comments from the other two gentlemen. Thank you.

Mr. Tomlin.

Mr. Ben Tomlin: I don't really have any comments, other than to say, on your comment about the wine industry, much of the success of the wine industry has to do with the foibles of the EU and getting the appellation system set up. Canada was able to make a profit on that, but that's all I have to say.

The Chair: Okay.

Mr. Murphy, a final comment.

Mr. Michael Murphy: I would very briefly add that in terms of China and India, quite frankly, in thinking about the significant challenges there for us—and there are many—when we were doing our work on it, we ended up spending as much time thinking about what needed to be done here in Canada as well as at the other end of the equation, whether it's intellectual property or whether it's infrastructure. So you never get away from those things in terms of the importance.

I'll leave it at that.

The Chair: Okay. Thank you, Mr. Myers, Mr. Murphy, Mr. Tomlin, and Mr. Hodgson, for coming today. It was a very interesting meeting and very much appreciated. We will take this and work with it. I'm looking forward to the study that will come and the input you've had into where that will go.

Thank you all very much. The meeting is adjourned.

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