



House of Commons
CANADA

Standing Committee on International Trade

CIIT • NUMBER 042 • 1st SESSION • 39th PARLIAMENT

EVIDENCE

Tuesday, January 30, 2007

Chair

Mr. Leon Benoit

Also available on the Parliament of Canada Web Site at the following address:

<http://www.parl.gc.ca>

Standing Committee on International Trade

Tuesday, January 30, 2007

• (1110)

[English]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good morning, everyone. I'd like to start by welcoming everyone back, and by welcoming all the new members to the committee. We're delighted to have you here.

We are continuing our study on Canada's trade policy. We have with us today the Ambassador of Chile, Eugenio Ortega, and with him is Paola Ansietta, the translator.

We'll just get right into the presentation. His Excellency has a power-point presentation, and then we'll go to questions as usual.

Excellency, if you would just like to proceed, go ahead, please.

H.E. Eugenio Ortega (Ambassador, Embassy of Chile): Thank you very much.

I want to thank the chair of the standing committee, Mr. Leon Benoit, and the members for the kind invitation to appear before you today.

This meeting is very important for us. It marks the ten years since the entry into force of the free trade agreement between Canada and Chile. We are organizing the celebration of this event, because it's the first time that we celebrate one between an emerging country and a G-8 country. I think it's very important for Canada and also for Chile, especially for Chile.

[Translation]

I would like to thank the committee chair, Mr. Leon Benoit, and all the committee members for giving me an opportunity to provide you with some information about our economic and social situation. Your invitation is very important to us.

I think my country has benefited greatly from the free trade treaty. We also feel that it is a gesture toward our country and our president, Michelle Bachelet.

This year marks the 10th anniversary of the free trade agreement between Canada and Chile, and we are ready to celebrate this event.

[English]

First of all, with regard to some basic data, Chile is located in the southern hemisphere of the world, on a long and narrow strip of land, from the Atacama Desert in the north to Antarctica in the south and, in the west including Easter Island, to Polynesia in the Pacific .

I'll give you some basic data. We have an area of 750,000 square kilometres; we have a longitude of 4,290 kilometres, a similar

longitude between Vancouver and Ottawa. Our population is 15.7 million, our GDP is \$115 billion U.S. Our income per capita is \$7,430 U.S., but our purchasing power parity is \$12,000.

In terms of our economic policy, Chile modified its development model which was based on the past where the state played a prominent role with imports geared toward the internal market. The principal reforms: the economic reforms were liberalization of prices and markets, privatization of many public enterprises, consensus on the key role of the private sector in the productive process, openness to foreign investment, and low external tariffs.

In terms of government policies, we focus on strengthening the regulatory role of the state to ensure fair competition and transparency; maintaining stable, clear, and non-discriminatory rules; reducing poverty; promoting equal opportunity; and preserving macroeconomic stability.

We have had sound and consistent macroeconomic policies for an extended period of time. Monetary policy is based on an inflation targeting framework aimed at keeping inflation within a 2% to 4% range as defined by an independent Central bank, a flexible exchange rate, and a state policy of strict fiscal discipline. There has been a rule of structural fiscal surplus of 1% of GDP since 2000.

Public policy is geared toward strengthening capacity to innovate and undertake ventures, especially in the small and medium enterprise sector. Foreign investment is an engine of growth. Since we have an open foreign investment economy, we have acknowledged the importance of foreign policy as an engine of growth. We need to ensure transparency and fair play in global markets and for that reason we require equal rules for all countries.

Chile welcomes foreign investment. Chile needs to bring in investment to increase the accumulation of capital, expand economic activities, generate employment, and transfer new technologies. Political and economic stability as well as liberal foreign investment regimes have attracted a large influx of foreign direct investment, FDI, since 1990. To date Chile has received \$61 billion in foreign direct investment, nearly 87% of the total of 1990 when the democratic model emerged.

• (1115)

In terms of foreign direct investments, you can see in the graph that mining is the dominant sector with 33%, followed by electricity, gas, and water with 19.2%, and the chemical industry with 14.9%.

With regard to foreign direct investment in Chile by countries of origin, you can see that Canada is the country of origin with the third highest level of our foreign direct investment. But I want to note that if we include 2006, the total for Canada is more than \$9 billion U.S.

In terms of Canadian financial returns in the period of the free trade agreement, since the agreement has been in effect, the financial return of Canadian investment in Chile has amounted to \$5 billion U.S.

Regarding Canadian foreign investment materialized by year and sector, you can see that in 2006 the total of Canadian foreign investment was more than \$9 billion.

In Chile there are almost 100 Canadian enterprises working in different sectors, not only in mining.

With regard to our trade policy, more than three decades ago Chile opted for a model of open economy geared toward foreign trade. Chile is highly dependent on foreign trade. Exports plus imports represent approximately 55% of our GDP. Foreign trade is an important component on our strategy of economic and social development, economic growth, employment, reduction of poverty, and equal opportunity.

In terms of Chile's trade policy, we have an active policy of trade liberalization through three different channels. On unilateral liberalization, we have a flat tariff of 6%, but the real average tariff reaches 1.7% on goods and services due to several free trade agreements signed by Chile.

At the multilateral level, we are very active in the World Trade Organization. As well, we have bilateral and regional agreements.

We have two different types of trade agreements: complementary agreements and free trade agreements. Complementary agreements are restricted to certain goods and services. Decreases in tariffs under the free trade agreement are achieved during an established period of time. These agreements are binding and involve a set of complementary norms such as labour agreements, environmental agreements, double taxation agreements, and public acquisition agreements, among others.

You can see we have a target population of almost four billion people and world GDP potential of nearly \$31 billion for our products through our free trade agreements.

● (1120)

Chile is characterized by having a balanced foreign trade policy in different regions throughout the world. The main regional markets are Latin America and Asia, both at 28% in terms of total trade, followed by Europe, with 22%, and North America, with 18%.

In terms of Chile's merchandise trade by main market, the first market is U.S.A., then China, Japan, Brazil, Argentina, Korea, Mexico, Germany, and Canada. The Canada-Chile Free Trade Agreement was signed in 1996. That year, total trade amounted to \$757 million Canadian. In 2006 commercial trade more than tripled, to \$2.1 billion Canadian. Between this period of 1996 to 2005, Canadian imports for Chile increased from \$342 million to \$1.7 billion in Canadian dollars. During the same period, Canadian exports have increased 10%. Under the current framework Canadian

companies have developed strong ties with Chile. They have confidence in Chilean norms and institutions.

Throughout the years, it has not been necessary to apply the agreement for the solution of controversies because we had no controversies in this period.

In your information package, you will find the summary of the top ten Canadian imports from Chile between the year 2001 and 2005. You will also find the summary of the top ten Canadian exports to Chile from Canada between 2001 and 2005. We distributed this to all of you before I began this power-point presentation. You have also in the package the summary of the amount of imports from Chile by province.

I think it's very important to observe the evolution of the gross domestic product in terms of the economic and social results it caused during this period.

In the period from 1990 to 2005, which means the democratic period, the GDP more than doubled according to the independent Central Bank of Chile, and the consumer price index decreased to 2.5% in 2006. We have in this period a good index.

In terms of the poverty and indigence index, poverty decreased from 38.6% to 18.8% in 2003. We don't have any other figure—for instance, the one for 2006—because we did the research for this report three years ago now.

● (1125)

We also have a positive environment for business and international standing. Chile is ranked fourteenth on the index of economic freedom, according to the Heritage Foundation.

The University of Göttingen and Transparency International rank Chile twentieth in the lack of corruption perception index ranking, the same as the United States.

On the global competitive index of the World Economic Forum, Chile is 27th in the global competitiveness ranking.

In terms of risk ranking in emerging countries, Chile is second, after Singapore.

We are first in Latin America in the global competitiveness index, according to the World Economic Forum.

We share our challenges. First of all, in terms of export diversification, we want to reduce the economy's vulnerability to commodity markets and have more value-added exports. In Chile, we now face a new stage in our development. We require the development of national public policy in different areas, like export diversification.

In innovation, we have to increase expenditures on research and development, currently at 0.6% of the GDP. The goal is to spend more than 1% of the GDP by 2010. We are absolutely aware that this figure remains very low. Only the province of Quebec is going to 3% of its GDP.

We are looking at the creation of a competitiveness innovation fund. We will create this with the resources coming from a mining royalty tax.

We also have a big challenge with educational standards. This is one of the most important goals in this government. The challenge is to develop reform plans that should improve the quality of education. Both elementary and secondary schooling have universal coverage.

Another challenge that we have is in income distribution. We need better jobs, and also better wages. Although the poverty rate has been reduced significantly, income distribution remains unequal. This is not only a problem on an ethical and political scale, it is also a barrier to long-term growth.

On our social security reform, even though a private pension fund system was established in the 1980s, it is necessary to improve some aspects of the system to ensure a better level of pension after retirement. The reforms seek to improve the following issues: coverage, density, pension yield, and efficient competition in the system. A solidarity fund provides access to benefits by the less protected. A reform bill was sent to the National Congress before the end of 2006.

Chile imports 72% of the energy that it consumes. This is a vulnerability in Chile's economy due to the volatile nature of international prices and the possibility of supply interruption. As of 2004, Argentina has reduced the provision of natural gas to Chile due to its insufficient capacity to cover internal demand.

We have an energy security plan. We have four objectives: to diversify the matrix in terms of inputs and providers; to reach a higher level of autonomy; to promote the efficient use of energy; and to increase the use of non-traditional renewable energy.

• (1130)

We have invested in liquid natural gas projects, and the plan is to begin to operate in 2008. As well, new legislation provides incentive for private investment in electricity projects.

In closing, Chile is a country that faces its challenges and sets its objectives with political consensus, as well as with the state, political parties, the business community, and labour organizations. Chile is a country that actively searches for solutions at a global level with social cohesion and modern, efficient institutions that are at the service of its citizens.

Please enjoy the following photographs of our country. One photo is our church in the south of Chile, built by the Jesuits in the 18th century. Another is one of the best and most important preoccupations, glaciers. I told the chair that we are working in this area with Canada because we have Antarctica and you have the Arctic. We have the best centre of glaciology in the southern hemisphere and we want to work with Canadian glaciologists.

That's it. Thank you very much, Mr. Chair.

The Chair: Thank you very much for your presentation, Excellency, and especially for your enticing photos of your beautiful country. I assume that's an invitation, and I'm looking forward to the trip that we'll organize for the committee.

I say that in humour, of course, but thank you very much.

We'll go directly to questions now, starting with the official opposition Liberal Party, for seven minutes. We'll then go to the Bloc

for seven minutes, the governing Conservative Party for seven minutes, and finally to the New Democratic Party for seven minutes.

Mr. Bains, welcome to our committee. Go ahead for seven minutes.

• (1135)

Hon. Navdeep Bains (Mississauga—Brampton South, Lib.): Thank you very much, Mr. Chair.

It is indeed a pleasure for me to be here as well, Ambassador. This is my first committee meeting that I'm attending, so I appreciate the presentation very much. It was very thorough and I learned a great deal about your country.

As you know, from my earlier discussions with many people in the trade industry and from speaking to many of my colleagues, one of the issues I want to raise with you today is with respect to how Chile brands itself among the other emerging countries.

Canada obviously is a trading nation. The vast majority of the jobs that we have in this country are directly or indirectly impacted by trade—three-quarters, I have been told. We recognize that we have a strong relationship with the United States, but we need to focus on emerging markets. Traditionally when we speak of emerging markets, we speak of either China or India, Brazil or Korea, but Chile never seems to get the attention it deserves. Based on your GDP forecast numbers and your economic growth projections, it is an emerging market.

Chile does have strong economic growth, and we have a trading relationship. We have had a trade agreement since 1997 with you, as you indicated in your presentation. We've been trading for about ten years, but there seems to be a lack of attention and focus on Chile by Canada, or in general when the discussion of emerging markets takes place. Chile doesn't seem to come to the forefront on that. I think part of that has to do with the fact that when we look at the numbers you showed earlier, since 1996 or 1997 up until now in terms of trade, the numbers haven't increased much. We started at, I think, \$757 million in 1996, and now we're at \$2.1 billion, so there hasn't been that trade increase in absolute numbers.

I was wondering why we've had this slow start or why there is very minimal trade, in light of the fact that we have this trade agreement with each other. Secondly, why isn't Chile part of the emerging market strategy that is commonly discussed with respect to many of the trade discussions that I have had at least? That also feeds into how we reach our full, maximum potential in terms of trade. And according to you, based on these questions, what do you think some of the challenges are going forward?

The Chair: Ambassador Ortega, go ahead.

H.E. Eugenio Ortega: I think it's been a good experience in terms of the relations between Chile as an emerging country and Canada. This is our first free trade agreement. In ten years, the trade between Chile and Canada has more than tripled. That is an important achievement. Canada, in my experience and the experience of the Chilean government, has put its eye in Chile on our market, but especially in foreign investment. I think Chile is the first country in Latin America in terms of foreign investment from Canada—more than in Brazil, for example. I think that we have another period...or we begin another period after the ten years.

We want to work with Canada in different dimensions, not only in the traditional commerce of food, wine, and mining. We want to work together in sectors such as biotechnology and informatics. We have the basis of human expertise for a new relationship with Canada. We are looking for that relationship in the future.

● (1140)

Hon. Navdeep Bains: Could you elaborate on exactly what that new relationship would be? How do you see that new relationship unfolding? That's probably the branding issue of how we better our relationship, so how do you foresee that new relationship evolving?

H.E. Eugenio Ortega: We are working at this moment with the Canadian government. We want to have a strategic agreement between Canada and Chile, not only a commercial agreement.

What do we mean by strategic? You have some challenges, as do we. We have defined these challenges. For instance, we have challenges in terms of education. We need higher levels of education. Canada has very good universities, and we are working to have tuition like Canada's for foreign students. We want to agree to work on that aspect.

We also want to work on energy. Canada has very good technologies in renewable energy. President Bachelet wants to have 15% renewable energy in Chile by 2010 because we have big challenges with the environment. We do not want to repeat the same model that many other countries use, and we are working on this.

We also want to work at biotechnology, for instance in agriculture. Canada has a big centre in Saskatoon for biotechnology research applied to agriculture. Canada has many opportunities, and I am very impressed. Canada gives us the opportunity to work together in science, technologies, education, and in many other dimensions of social and economic life.

I think Canada has had a very good approach and very good relations with Chile in different governments, under Joe Clark, Brian Mulroney, and Jean Chrétien, etc. Also in political affairs, the Speaker of the House of Commons invited our Speaker to Canada with three members of the senate—our senate is elected in Chile—and members of the House, from the 26th to the 30th. They are coming with the President of the Senate, the former president of Chile, Eduardo Frei, who signed the Canada-Chile Free Trade Agreement with Jean Chrétien.

In general we have a very close relationship with Canada, and we want to increase our relationship.

The Chair: Thank you, Mr. Bains.

We will now go to the Bloc Québécois member, Monsieur André.
[Translation]

Mr. Guy André (Berthier—Maskinongé, BQ): Good morning, Mr. Ortega. I find it very interesting that we have you with us today.

I noticed that you speak very good French. I am from Quebec. I read in the notes that there was a great deal of trade between Chile and Quebec. However, since the free trade agreement between Canada and Chile was signed, we have not seen a significant increase in trade. It seems to have reached a ceiling. How do you think we could increase trade between Quebec and Chile? I noticed that we do trade a number of commodities already. There is no doubt

that we are very fond of your wine. Are there any other areas that could be developed further?

In addition, with respect to Canadian investment in Chile, we hear a great deal about the mining sector. Are there any agreements in place with multinationals or other firms that are designed to protect the environment? Does the free trade agreement include some provisions on environmental protection?

I have another comment about the environment. You are looking for energy sources. You want greater energy autonomy, and you talk about hydro-electricity, natural gases and other sources of energy in this regard. In Canada and Quebec, the environment, the Kyoto Protocol and greenhouse gases are important areas of concern. How does Chile deal with these issues?

● (1145)

H.E. Eugenio Ortega: Thank you very much.

It is true that we have quite close relations with Quebec. Yesterday, I was in Montreal to open a seminar involving some 30 companies in the renewable energy sector that are going to Chile in March. It is also true that in the context of our trade relations with Canada, Quebec ranks first among the provinces. Of the \$2.1 billion in total trade, Quebec accounts for \$1 billion.

We expect that many Quebec companies will eventually set up operations in Chile, given Hydro-Quebec's experience. You can see from the report on its website that Hydro-Quebec's experience in Chile was one of the best it had with any foreign country. The company made some \$800 million there. We privatized the hydro-electric transmission network, and the company that purchased it—Brookfield Asset Management Inc.—is Canadian as well. The president of this firm told me that this was a very positive experience.

You asked a question about the environment. Included with the free trade agreement is an agreement on the environment. We have legislation as well as an institution known as CONAM. It has worked very closely with Canadian institutions over the 10 years the agreement has been in place. We are really very demanding of our own companies. Codelco is a major copper mining company in Chile. I think you have heard about Canadian investors who had some difficulties with a group of environmentalists. Chile is a democratic country. There is a significant environmental movement that is trying to keep control of the issue, within civil society.

We are following environmental issues very closely, not only from the point of view of the government but also in terms of civil society. Today, requirements in Chile are very stringent. All investment projects have to go through a commission. Civil society is involved in the commission so as to evaluate projects. In order to be approved, the projects must meet certain environmental standards. I think that we are about to meet our international objectives, and we are really very pleased about that. We are also in the process of changing our electrical grid, which is a very significant factor in this regard.

• (1150)

Mr. Guy André: Are you starting to look into wind energy? I imagine your country would be able to develop this type of clean energy. You spoke about hydroelectricity and natural gas, but are you also looking at wind energy as well?

H.E. Eugenio Ortega: The majority of the Quebec companies in Chile are involved in wind energy. Conditions in our country are much the same as those in eastern Quebec, in the Gaspé peninsula. We have the mountains and the sea. This geographical context means that investing in wind energy is a good option for us.

We have developed a program that provides US\$60,000 to each company that seeks to invest in Chile. So we have a proactive renewable energy program.

[English]

The Chair: Merci, Monsieur André.

We'll go now to Mr. Menzies from the Conservative Party.

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

I will try to keep my comments and questions very brief. I would like to share with my colleague, Mr. Cannan.

Thank you so much for your presentation.

I feel very honoured to have had the opportunity to visit Chile. I only was in Santiago; I didn't get to see the rest of the country. I do have a friend, who I have known for many years, who farms just south of Santiago. He talked about the changes in agriculture. He used to grow wheat and barley, and now his sole crop is kiwis.

I look at the advantage you have in your climate, not only the ability to grow different crops but also your long coastline and the varieties of fish—all the way from warm-water fish to cold-water fish. I see that as a great advantage. Canada takes advantage of both your fruit and fish exports.

There was a lot of talk when I was there about converting all the buses in the city of Santiago to natural gas. But I see your dependence on imports of natural gas and I see you are putting in an LNG offloading facility. Do you see being that dependent on natural gas as a concern? How is that transformation within Santiago going?

The one question I would like an answer to is on low tariffs. I picked up on the fact that you have a principle of maintaining low tariffs. Has that been a benefit for you as an exporting nation?

H.E. Eugenio Ortega: Thank you very much for your question.

First, it is true that we have a very good climate—a Mediterranean climate. We have different climates. In the north we have desert and in the south we have glaciers.

We have some natural resources that are important: fish, forestry, and especially in agriculture, kiwis for instance. I was very happy when I found kiwis and grapes from Chile here.

Also I want to say a word about the contrast. When you are in winter here, we are in summer there. We have reverse seasons. That gives us the possibility to complement the strategy, in agriculture for instance. The minister of agriculture is coming at the end of April and into May to Saskatoon, because you are the first producer of lentils. We were among the first producers of lentils.

By the way, genetically, your lentils, now developed in Saskatoon, come in part from Chile.

• (1155)

Mr. Ted Menzies: I didn't know that.

H.E. Eugenio Ortega: Your canola also comes from Chile. The genetics come from a plant called yuyo. That means we have the possibility of producing seeds for your agriculture here. We want to plan this strategy in the agricultural sector. It's very important for us to use these reverse seasons in Chile and Canada.

We are also working toward independence in gas. We are preparing two plants for liquid gas in Chile, one in the centre and one in the north, because we want to have gas. For this reason, the person in charge of the National Energy Commission is coming March 12 to visit Alberta to see if it's possible to organize a relationship between our national company of gas and petroleum, and Canada. It is very important for us to achieve this goal.

I don't know if I've answered all your questions.

Mr. Ted Menzies: That's fine.

The Chair: Mr. Cannan.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair, and thank you, Ambassador Ortega, for your presentation.

It is an important time to reflect on the 10 years of success, and to celebrate. I come from beautiful British Columbia, where we have some great wineries. We share some great vintages. Along with my colleague from Ontario, I know that we learn both agriculture and the vintner culture from each other. So we appreciate the education and success that the stability of the agreement has brought to industry.

I'd like to concentrate more on the fact that our committee is trying to find ways to enhance the global competitiveness of Canadian businesses and foster new free trade agreements. We haven't had a bilateral agreement in Canada since 2001, and I believe you have about 43 you've signed since....

I'm just trying to find out about your development strategy in some of your successes. What role does industry or the private sector play when you consider pursuing a free trade agreement, and what role do government and elected officials play in those negotiations?

H.E. Eugenio Ortega: Unfortunately we have big competition here in terms of our wineries, because British Columbia and Ontario are producing good wine, especially the ice wine, which for us is excellent.

With regard to British Columbia and Chile, for us our common relation with this part of the world, the Pacific coast and Asia, is very important. We have to utilize the port of Vancouver for many reasons in our relations with Asia, especially China and Japan.

Together with the Government of British Columbia, we want to study the role that British Columbia, and Vancouver especially, will play in the future of the Asian Pacific and APEC. We want to participate in your strategy, and we also want Canada to participate in our strategy to go to APEC countries and establish new relations, especially in transportation, ports, and so on.

In Chile, 80% of the economy is private enterprise. Only 20% of our economy depends on the government for services, and there are some copper, gas, and petroleum companies. In this aspect we work together. We have an organization called ProChile that's a platform to help enterprises go outside of Chile to the world. Our entrepreneurs don't fear going out to compete in the world, because staying inside the country is not possible in our economy with a market of 15 million people.

We have already learned that globalization is good in some aspects and dangerous in others. We work together with Canada in this respect, because we have to dominate the power that... globalization wants to dominate the global market. For this reason, we often have the same position as Canada at the World Trade Organization. We also have common relations in free trade—for instance, in the United Nations, the Organization of American States in Washington, D.C., and in many other aspects.

In Haiti we are working together. But we also want to work together to regulate the global market, especially for countries such as Chile and Canada. Canada has 32 million people. We think that in future, the private entrepreneur has to continue to play an important role, but the state policies, the foreign countries of both countries, Canada and Chile, should help the entrepreneur, and also work together with other countries to regulate the global market at this time.

• (1200)

The Chair: Thank you, Mr. Cannan and Mr. Menzies.

Mr. Julian, you have seven minutes.

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

Thank you, Mr. Ambassador, for being before us today.

I was interested in the figures you cited around the reduction of indigence and poverty levels. You mentioned that from 1990 to 2003, the indigence level was reduced from 12.9% to 4.7%, and the poverty rate from 38.6% to 18.8%.

I'm interested in the definitions of poverty and indigence, and in how one defines them and whether this in real terms. In other words, does the definition change with the cost of living?

• (1205)

H.E. Eugenio Ortega: Thank you for your question. It is very important.

The definition of poverty is not very easy. We have many poverties, not only one. You can also have poverty with money in the pocket.

We issue a national survey every three years, in which we measure poverty not only in terms of income. We also have situations with women, children, and housing where I think we can measure poverty. In this case, the service we named was the CASEN survey. It has many different indicators that give us a more sophisticated notion of poverty.

We also have some research over a two-year period. I brought it with me. We measured our social situation in terms of the United Nations human development method, which is an absolutely independent index. According to this index, we rank 37th in the world out of 177 countries. This means that we don't want to fool ourselves, because poverty is more than income. We have the instruments to measure real poverty in different dimensions.

I also want to address this question to say something important. Normally when poverty is measured statistically in different countries, it's necessary for the person to have the income to obtain a group of basic goods and services in the market. That's a basket of basic needs. If we use this measure in this case, poverty is two baskets of basic needs, and indigence is one of those baskets. This is not our figure, because we introduced different indicators in this measure of poverty and indigence in Chile.

Mr. Peter Julian: I'm interested because this is very important information you are giving us. Over the same period in Canada we've actually seen increasing poverty. In fact, 80% of Canadian families' incomes have fallen. Only the top 10%, the wealthiest 10%, have seen their incomes skyrocket, and of course the top 1% have profited spectacularly in this period, so what we're seeing in Canada is much more income inequality. In fact, we're at the most unequal level since the 1920s, and most of the jobs created today are part time and temporary in nature.

With reference to your economic and trade strategy, what is it about Chile that has been different from Canada? How have you managed to start to actually tackle issues of poverty and falling incomes, while we in Canada have not been able to?

•(1210)

H.E. Eugenio Ortega: I want to clarify something. We can lower the poverty, but it's not the same as lowering the inequality. That is because all is increased, but increased in the same difference. Do you understand? That means we have an equal rise in income, but when we measure the difference between the 20% of the people who have the most income and the 20% who have the least income, in Chile it is 14 times bigger. It's important, but when you introduce social expenditures in the schools and in social life in general, when you introduce the social policies for this person, the difference is seven. The big change in democratic life from the neoliberal political situation before is that we now have a social policy, a very important social policy.

In education, for instance, I have the figures here. In education, in 1990 we had 1.6% of the GDP in expenditure in education; we had 3.3% in 2002, and we have increased it in the last year. That means, for instance, we doubled the post-secondary education. That means Chile, in terms of social policy, is very proactive. For this reason, the difference between the rich and poor is decreasing.

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

We go now to the five-minute rounds, starting with Mr. Temelkovski.

Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.): Thank you very much, Mr. Chair.

Thank you very much, Ambassador, for coming and sharing so much information with us.

I'd like to get your opinion on what are maybe the three obstacles that Chile has identified in allowing us to increase our trade capabilities between the two countries.

H.E. Eugenio Ortega: It is a very good question. We have to work with the Minister of International Trade. We have a meeting next month with the commission that administers the free trade agreement. Madam Marie-Lucie Morin perhaps is going to Chile to make the evaluation, the first. We had worked in the evaluation of the free trade agreement, but I think, in my opinion—this is absolutely personal—we are working to answer this question in terms of empirical.

I think that we have one of the (inaudible) came from some difficulties to push the medium and small industry to go to the market. For this reason, we are learning here about the technical extension system for the medium and small industry. This is one point. And you have also the same problem in your middle with other levels of technology, but the same problem, in terms of market. Your enterprises, they have the security of the market in Canada, in their province, but they don't go to the world. They fear.

And it's not easy. The big companies that we have, and we have many, they are in the world, but the small and the medium companies, I think that we have not a good policy, a common policy, to push—push—the small and medium enterprises to enter into the international market. We'll have to learn from your experience, and I think that you have to learn also of ours, because we have some experience, very important, in different aspects or dimensions.

But we think that this is the first. We have many enterprises that don't go to the global market. They fear.

The second is financing. I think that we don't have a good system of finance the trade, the international trade, to promote the international trade. We have to organize in our financial system some possibility to give some incentive to these small and medium enterprises.

And third, I think that the big problem is that we don't have open relations in other sectors—I mentioned that before—that is very important, the trade.

I think that Canada has to define the possibilities that Chile offers, to establish in Chile companies to work for Latin America, not only for the 15 million persons, and we have this platform, in terms of... Chile's a model in (inaudible) and in terms of Internet and all the different service that need an enterprise to work well, and if you ask to the big enterprise how they have been received in Chile, how they find the country to make his business in Latin America, you will have...I asked them in (inaudible).

•(1215)

Mr. Lui Temelkovski: Do you foresee the same difficulties or obstacles with your other free trade agreement countries? Are they similar, or is this unique to Canada?

H.E. Eugenio Ortega: No, there are not too many obstacles. In the case of the European Union, we have a more complicated system of free trade. It is not only free trade. We have a system of technical cooperation to help enterprises go to market. They are Chilean....

We also have other free trade agreements along the same lines. For this reason, it is very important to know what we are looking for in the near future. How do we improve on new dimensions in our relationships? Because to only open the market and write the agreement is not enough. Our public policies in international trade must be more proactive, but together, so that we learn from each other. In this way, we can go forward more quickly.

•(1220)

The Chair: Thank you, Mr. Temelkovski.

We'll now go to Ms. Bonsant for five minutes.

[Translation]

Ms. France Bonsant (Compton—Stanstead, BQ): Thank you.

Good afternoon, Excellency.

My questions will be about education. You did not mention what percentage of young people go to school. In a number of countries, there are recruitment problems because the population is aging. I would like to know whether there are many children in your country who want to go to school, because we do hear a great deal about skills development. Does Chile have a problem recruiting new employees in all areas of activity, such as mining, medicine and agriculture? Are there young people there to take over the jobs? Does Chile invest heavily in research and development?

H.E. Eugenio Ortega: Thank you very much. Education is important to us.

I said in my presentation that our most serious problem is the quality of education. I am also referring to the quality of our technical education. We have some very good universities, even though they are not all at the same level as Canadian universities. We would like to have greater access to the Canadian university education system. We are having some discussions with the Canadian Association of Universities and Colleges. We have already met with representatives of this association and with the Association of Canadian Community Colleges. I went to Santiago with them. Our needs are mainly in the area of technical education. Our technical education programs are not of a very high level... Is that the correct term?

Ms. France Bonsant: Yes, that is right.

H.E. Eugenio Ortega: We do not offer our young people a high quality alternative—namely technical education.

Ms. France Bonsant: So, after high school, you go to university.

H.E. Eugenio Ortega: That's indeed the trend we've observed. We're trying to fix the problem and change things. For the past 10 years, we've gone to great lengths to improve technical education. In Chile, technical schooling is dispensed by private mining and agriculture companies.

• (1225)

Ms. France Bonsant: Is that similar to the technical training provided by Quebec's CEGEPs? After three years of study at a CEGEP, you get a diploma in nursing or agriculture without necessarily going to university.

H.E. Eugenio Ortega: That's what we're trying to do.

Ms. France Bonsant: Is it also similar to what you call the community college system?

H.E. Eugenio Ortega: Yes, it is. They visited Chile in November and had quite an important meeting with Chile's education minister. She may come to Canada at some point to meet with Canada's provincial education ministers and representatives from the Association of Community Colleges of Canada, and also to look at the Quebec model.

Our big problem is still the lack of funding for research and development. For example, Quebec will spend 3 per cent of its GDP on research and development from now through 2010. Innovation is crucial to Canada, and we have a great deal of work to do in this area. The education minister will be coming April 19, 20 and 21, as well as our finance minister. These meetings will be an opportunity to work with Industry Canada and to get an understanding of Canada's experience when it comes to innovation. We also want to increase the amount of money spent on research and development. That's one of our big challenges.

Ms. France Bonsant: *Gracias.*

[English]

The Chair: Merci, Madam Bonsant.

We go to Dean Allison from the Conservative Party.

Mr. Allison.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you, Mr. Chair, and thank you, Mr. Ambassador, for being here today.

I just want to clarify something, because I know our good friends over at the NDP may lead you to believe that we're worse off in Canada now as a result of some of our trade agreements. I want to give you a benchmark, which has been produced by Statistics Canada, that says when NAFTA came into effect in 1994, the average family had a total income of \$64,000, and by 2003 that income had risen to \$72,000. So we are doing better as a result of some of our free trade agreements and we'll just agree to disagree on that particular fact.

In terms of your free trade agreements, it looks like you guys have some of the most extensive free trade agreements in the world. You've got agreements with China, the U.S., a very extensive range of free trade agreements. You guys are arranging free trade agreements with Australia, India, Thailand, and Vietnam right now in 2007. Is that correct?

Then my question is how do you decide who you're going to deal with in terms of free trade agreements? It's amazing—and I know it's been mentioned before by some of the colleagues—that we haven't completed any since 2001, but you have free trade agreements with countries like the U.S. and China. You also have some that aren't so impressive or that don't have that type of clout.

So why do you look at free trade agreements with various countries? Just from all the numbers, and by what you indicated to us on the board, it's looks like it's been very successful. What is the determining factor when you go looking at free trade agreements with other countries, and is there something in there that Canada could maybe learn from?

H.E. Eugenio Ortega: I think there are two or three elements that are very special for us when we define a country. Normally we know exactly that in China, in India, and in many other big countries and big markets, we want to establish our entrepreneurs. It's impossible now for us to forget China. We have worked to obtain the agreement with China...in many different democratic governments. The President of Chile has visited China 10 times, I think, and many times we have received the Prime Minister of China in Chile.

For them, the problem is Latin America. They don't go to Chile and sign an agreement only to establish relations with this small country. Rather we have, as I told you before, a big platform and this is the more important thing in their approach. In our approach, for instance, we have a free trade agreement with EFTA. EFTA is the free trade agreement of four countries: Iceland, Liechtenstein, Norway, and Switzerland. Why? Because we are very interested in the experience of Norway and Switzerland. Liechtenstein is very small, but they are part of EFTA. We signed the free trade agreement because Switzerland and Norway are important to us in many different sectors.

We have, for instance, an agreement with the P4—New Zealand, Australia, Brunei, and Singapore. That is not only a free trade agreement but also a cooperation model. This means we will work together on many different aspects with them. Singapore is interesting for us, not only as a place but also because of the sectors in which they work. With New Zealand we have a complementary relationship. They need Chile to develop some aspects in forestry, wine, and different sectors.

There are many reasons, not just one or two reasons. Each country presents different alternatives to give us different opportunities that we can use. You don't understand Chile now if you don't understand free trade, because in Chile 55% of our GDP is foreign trade. That means Chile has more than twice per capita the income from foreign trade that Argentina has, or more than four times that of Brazil. You understand Chile if you understand that we open our economy. We have put to our entrepreneurs the challenge to go to the market in competition with others.

● (1230)

We invite Canada to participate in the group of four, the P4, because we can organize with Australia, New Zealand, Brunei, Singapore, Canada, and Chile a very good standard to face the future. I think that if you have not only more commercial trade agreements, but also a cooperation system that we are looking for in the future with Canada, it will be very important, because that will give us many other opportunities.

Proactive thinking is limitless, and when you put together entrepreneurs, researchers, new technologies, etc., there are possibilities for both, for different countries, and we believe in that. We think our country is leaving poverty and underdevelopment behind.

In this scheme, we think the state has a very important role. We have nationalized some companies; in petroleum, in copper, and in different things the owner is the state, but also we have an e-state. I can say to you that our e-government, as evaluated by the World Bank, is one of the best. Excuse my pride, but it's one of the best. I have visited some provinces here and have had the opportunity to talk about the e-government in Chile, and they say, "We need your help, your assistance". We have, really, an e-government that works very well, and Quebec has concluded they want to know about our experience.

I think when you go into this, you find partnerships not only in things, but in imagination and creativity.

● (1235)

The Chair: Thank you, Mr. Allison.

Mr. Julian is next, for five minutes.

Mr. Peter Julian: Thank you, Mr. Chair.

Thank you, Excellency, for your comments around income inequality. My colleague Mr. Allison was quite right to point out the absurdity of having so-called average incomes going up when we know that for 80% of Canadian families they've actually fallen. That's what average income rates actually do: 1,000 people lose half their income and a billionaire makes another billion, and it appears that all incomes have skyrocketed. We know it's not the case, so I appreciated your comments about income inequality and making sure that the government analyzes that and understands what is actually happening.

I have three questions for you. The first is around value-added exports. We've recently had the government sign a softwood lumber deal that has led to sending raw logs across our border with a lot of job losses. It would be interesting to see what the Chilean government has put into place to ensure that the exports that leave

Chile are actually value-added and actually contribute to the creation of jobs.

Second, you mentioned a long list of trade agreements that have been signed. Do those agreements, the most recent ones, include social, environmental, and labour components within them to ensure that the living standards of Chilean citizens are raised, as well as those of their trading partners?

Finally, you have a very diverse trading regime: no country has more than 13.5% of exports. In Canada we are extremely vulnerable: 86% of our exports go to one country. What does the Chilean government do to ensure there is a wide diversity, so you're not dependent on one market?

● (1240)

H.E. Eugenio Ortega: We think the results have shown that the free trade agreement with Canada is one of the best that Chile has signed. That is our position. We want to increase it, but we don't regret this step.

To your question, Mr. Julian, the first thing is value-added exports. This is the most important thing today. It is the first challenge that we have. We don't want to be a country that exports on the poverty of the people. We want to be a country that exports with our knowledge, our technology. That is our target. For this reason, we ensure the social and labour aspects of our exports, and we demand that the other countries have a labour approach like the one we have. For instance, in Canada what you have is better than ours, but we are very worried about that point.

We have always been very aware that our exports must be balanced for the markets in the world. For instance, in the Asian crisis, we defended our economy because we have many different markets. For this reason, Chile, as a little country, not only had great interest in the Doha negotiation, we also organized our own defence of our economy in the event of instability in the world economy, especially in terms of problems in the international financial market. That is very important because we are the first country where it is not possible that financial investors can come to Chile only to turn profit. They have to stay and put the money in for a period of time. They can not take the money immediately from the country. You know what happens when there are many international forums at play in the world that look for profit by profiting from others.

● (1245)

We will defend our economy from this type of financial institution. Normally we look at different areas of the world because we want to always balance our exports in the world, and not only in one or two global regions. That's my answer.

Value-added export is, for us, a first priority. We have to change. We have to move more quickly in this respect, with more research and development. We are spending more money in this government than the government before on this program.

The Chair: Thank you, Mr. Julian.

Mr. Maloney, for five minutes.

Mr. John Maloney (Welland, Lib.): In your deck, Mr. Ambassador, you indicated that between 1996 and 2005, Canadian imports from Chile increased from \$342 million Canadian to \$1.7 billion Canadian. During the same period, Canadian exports increased by 10%. My calculation of the Canadian imports is roughly a 500% increase over that period, while during the same period our exports only increased 10%, so we have much to learn from your experience.

You indicated, in response to a question from Mr. Temelkovski, that the obstacles to trade with Canada deal with the mindset of small and medium-sized enterprises, in that they fear to trade in the international markets. I'd like to know what percentage of your SMEs are SMEs that trade with Canada. That's number one.

Number two, you also indicated an obstacle of financing, in that we don't have a good system of financing to promote international trade and that we need to give more incentives to our SMEs. What types of incentives does Chile give, if any?

Your third point was that Canada has to define the possibilities of trade within Chile. How would you suggest that our SMEs could educate themselves on trade and investment opportunities in Chile?

H.E. Eugenio Ortega: I want to begin with the last part of your question. I think it is very important that we can work together, between our institutions, to promote this international trade. It's not my job to make some of these suppositions on whether your policy in terms of foreign trade institutionally is good or not good. But we want to have an agreement in terms of working together in the methodological promotion, the foreign promotion of our exports, with your experience. We find many differences in different provinces. Different provinces have more incentives than others. I think it's important for us to have, in this term, a closer relationship with the institutions that promote exports.

We have very good relations, for instance, with EDC, Export Development Canada. We also have some institutions in Chile that are working in the agriculture sector and in the industry sector to promote exports in the small and medium-sized enterprise area. The problem we have is that perhaps we've never been at the same table as the persons who are working on this issue of how to go more quickly in the relations between Chile and Canada in exports by small and medium-sized enterprises.

I don't remember if we have had an opportunity to discuss this aspect between Chile and Canada. We have to do that in the future, because the small and medium-sized enterprises in Chile and in all countries are the most important. They give more employees labour, and they are very important for us at this moment.

On the percentage of small and medium-sized enterprises that are exporting from Chile to Canada, I don't have the number here at this moment, but it's increasing. I am sure it's increasing especially because in the different sectors.... In wine, for instance, there are many medium-sized enterprises in fruit. In vegetables, there are also medium-sized enterprises that are exporting, and also some in industry.

It's important for us especially because we have some incentives, through this institution ProChile, that is dedicated only to promoting exports of the enterprises. This institution is owned by both the state

and private enterprise together, and that gives us the opportunity to work with the private sector to go to the market.

● (1250)

Mr. John Maloney: How do you define a subsidy, as opposed to the incentives that you've just described? Is there a difference?

H.E. Eugenio Ortega: We give and want to give incentives in terms of technical assistance, information that's very important on different markets, and where you can go to export. We have, in countries with whom we have free trade agreements, experts in their field. Here we have offices in, for example, Toronto, Montreal, and British Columbia. People are looking for new markets in these provinces. And we also want to work in different provinces, in Alberta, Saskatchewan, and Manitoba, and also the provinces in the east, because we have some possibilities.

The Chair: Thank you, Mr. Maloney.

Mr. John Maloney: I have another question.

We have an embassy in Santiago, but do we have consular offices in other parts of Chile? You just described your consular offices in Toronto and Montreal.

I could find this out, but just off the top of your head, do you know whether we do?

H.E. Eugenio Ortega: I think you have only two honorary consuls in Chile.

Mr. John Maloney: Okay, thank you.

Thank you, Mr. Chair.

The Chair: The last member of the committee to ask a question today is Mr. Lemieux.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): It depends on whether I have a question....

The Chair: Mr. Lemieux hasn't had a chance to ask questions yet, so he'll be the last member.

[Translation]

Mr. Guy André: Haven't we started a new round?

[English]

The Chair: I'm using the discretion of the chair, just to have the last....

Okay, go ahead, Mr. André, if you'd like to take the last one.

[Translation]

Mr. Guy André: Thank you, Mr. Chair.

Your Excellency, in response to Mr. Julian's question on globalization, you told us of the success stories in terms of addressing social inequalities between the rich and the poor. You referred to the 7 per cent, the richest 20 per cent of the population and the poorest 20 per cent and talked about the income gap. You're currently looking to establish social programs, programs which will further support the most disadvantaged in society, and help create a more level playing field.

An election was held recently in Chile. A right-wing government got in. So, there is huge pressure to slash social programs, notably health care programs. There's also a lot of pressure being felt here in that regard and talk of privatizing both the health care and education sectors. Despite an increase in collective wealth, a phenomenon due to multinational corporations, there is still much talk of privatization and there are fewer and fewer social programs.

Right-wing parties are forming governments in many places throughout the world. There are certain trends becoming apparent on the world stage, especially given globalization and the existence of a number of free trade agreements. There is some level of pressure being felt worldwide and the pendulum is swinging towards the right. I know that in Latin America, there are other trends being observed.

How does Chile deal on a daily basis with the pressure being brought to bear today on the health and education systems, and a tendency to slash social programs which would normally support the disadvantaged?

• (1255)

H.E. Eugenio Ortega: That is a very important issue for us because we are globalization players; we are not standing on the sidelines. Globalization, as I pointed out, offers many opportunities but it also harbors many risks. The coalition government that took over from the military government decided that Chile had to take a pragmatic approach in both areas, that of its international role and of its social policy, which provides the ground rules for the under privileged.

For example, we clearly transformed the health system and we are currently establishing a health care system to which 60 to 70% of the population will have guaranteed access. Currently, approximately 30% of the population uses the private health sector but we are working together because the private sector potentially can provide services that are not available within the public sector.

I talked about education. We would like to have a social policy that guarantees that globalization will not increase the social disparities in Chile. That is still our *[Inaudible]*. I believe there is a political consensus on this, as I pointed out at the end of my presentation, and a consensus between businesses and workers. There are differences of opinion, problems and disputes, as there are anywhere, but the key is to move ahead without being dogmatic. Some are against globalization and others only believe in free trade.

We are more pragmatic. We made substantial changes to the Washington agreement that was imposed by the World Bank and the

International Monetary Fund, and that today no intelligent human being in the world would agree with. We have opened our economy but we are aware of the danger that represents. We need to work pragmatically in a complementary, not a confrontational way.

• (1300)

[English]

The Chair: Merci, Monsieur André.

Thank you very much, Ambassador, for coming today, and for your presentation and the information you have given us in the answers to our questions. I thank you very much. I look forward to seeing you in the future.

I need to go over just a couple of quick items. We have the Conference Board of Canada before the committee on Thursday, talking about the study they completed a little while back. I will issue a news release just on that.

The one other thing to do with the committee is that we had agreed to invite the industry committee members to that committee as well. So unless there is any objection, that's what we decided and we'll just carry through on that.

Yes, Mr. Maloney.

Mr. John Maloney: Will we have a longer period, then? If we have two committees combined, I'm just wondering about the questioning.

The Chair: No, we will have two meetings. We have one this Thursday and one next Thursday with the Conference Board.

Mr. John Maloney: Okay; and the industry committee, so both.

The Chair: Yes. And in terms of questioning, we can actually kind of work on that before the meeting. Certainly we would like a majority of questions to go to members of the trade committee, but the industry committee members could ask as well.

So for Thursday, it's—

Mr. Lui Temelkovski: And the press release?

The Chair: The clerk has the press release here, just announcing that this meeting is happening.

Mr. Lui Temelkovski: Okay, thank you.

The Chair: Very good.

Again, thank you very much, Ambassador.

The meeting is adjourned.

Published under the authority of the Speaker of the House of Commons

Publié en conformité de l'autorité du Président de la Chambre des communes

**Also available on the Parliament of Canada Web Site at the following address:
Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante :
<http://www.parl.gc.ca>**

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.