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Chair

Mr. James Rajotte

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● (1530)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Order.

Welcome, ladies and gentlemen. We'll start the 19th meeting of the Standing Committee on Industry, Science and Technology and continue our study of the manufacturing sector.

Before I turn to our witnesses, I want to welcome a very special guest at the committee. Dr. Isolde Victory is head of research services at the House of Lords in Britain, and she will be observing the committee for about thirty minutes, I believe. She is here for about ten days to observe how the research services work. She is leading a project to review the House of Lords library research services in light of its own development plans and its changing client base.

Dr. Victory, would you stand up and be recognized by the committee?

Some hon. members: Hear, hear!

The Chair: Dr. Victory is observing the excellent work done by our analysts and researchers.

I want to point out to members that a briefing book on manufacturing should have been sent to your offices. I hope you've received it. If you haven't, then certainly contact me or the clerk.

I'll move right to our witnesses, and I'll start with the Canadian Association of Railway Suppliers. We welcome Glen Fisher, who's with the board of directors; Jay Nordenstrom, the director of government and industry affairs; and Rachel Pereira, the associate director of industry affairs.

After opening presentations of about ten minutes, we will go right into questions from the members.

Mr. Fisher, I believe you are making the presentation on behalf of your association. Please go ahead.

Mr. Glen Fisher (Board of Directors, Canadian Association of Railway Suppliers): It's an honour to be invited to speak to members of Parliament, members of this committee. I thank you for the invitation, and I'm impressed with the fact that there are probably people here who know as much about railways and transportation as I do. I will include that importance in my presentation and my explanations.

The Canadian railway sector is of key importance to the Canadian economy and Canadian development. As all Canadians are aware, the country really was knitted together by the railways. The railways account for moving something like 24% of all of the exports from Canada, and quite a large proportion of internal freight, about 60% on a tonnage basis, moves by rail.

One of the lesser-known things about the rail industry in Canada is that through all of the debate and discussions and changes in technology and infrastructure, we actually do have the most efficient railways in the world. Canadian freight rates are slightly lower than the U.S., and that really is what puts us in the category of having the lowest per tonne kilometre freight costs in the entire world. We really do have efficient freight railways.

Another important part of that, of course, is that some of our products, such as grain, have to move further to port, to ocean, to tidewater, in Canada than in any other country in the world, except possibly Russia. For these reasons we really have to stay on our toes to be competitive all of the time.

The Canadian Association of Railway Suppliers is an association with about 130 members out of about 500 small and large—some very large—manufacturers and supply organizations. We supply the services and products that keep the Canadian railways running. A great deal of our effort in maintaining our market with our own railways is keeping on our toes in providing innovation that is specific to the Canadian railway needs. Again, that relates to things such as fuel efficiency, being able to operate in the winter, having products that will work in minus 40-degree, minus 50-degree temperatures. Indeed, some of the lowest recorded temperatures in Canada were in northern Ontario, in the minus 70-degree range. To have lubricants and airbrake systems that will operate in those temperatures is no easy task, but our railways do it, and we are the people who provide them with the material and equipment that make that possible. We're also fortunate to be able to export to other countries. Of course, the United States is one of our largest sources of business as well.

The Canadian Association of Railway Suppliers members total over 60,000 employees. There's a big labour pool involved. We probably have more employees than the railways themselves. That is to say the labour that goes into making components, everything from paint to consulting engineering, that the railways use represents even more labour than the railways themselves.

Everything the government does in relation to transportation legislation, industry legislation, tax, and so forth affects our members and our industry. It's important that we cooperate with each other.

I'm very pleased that this is really our first presentation to your committee, and I hope we'll be invited frequently as things change in the future.

We have a list of things that we consider shortcomings or disadvantages in existing government policy. One of the things that is hurting us now that free trade has evolved is the capital cost allowance for tax purposes, depreciation for tax purposes, of railway equipment. The reason this is hurting us is that there's a big difference between the writeoff rates in Canada and the United States.

● (1535)

With a lot of our equipment being acquired on either side of the border, and the U.S. railroads also buying in Canada, the leasing companies are seriously affected by this difference in the capital cost allowance.

If a U.S. leasing company is leasing equipment to a Canadian railroad for a particular purpose, chances are that they will not only buy their equipment from a U.S. supplier, but neither the Canadian government nor our association will see much in the way of income taxes and so forth from that industry. We won't see any employment from it. So it's a negative incentive to do business in Canada in terms of equipment purchases.

We would like to see matching of the capital cost allowance with that of the U.S. for railway equipment.

We need to invest in environmentally sustainable transportation, that is to say, to continue to improve our fuel efficiency. We already, on a tonne-kilometre basis, are about 500% better than trucks. That is, we use about 20% of the fuel that trucks use for the same tonne kilometres.

This all has to do with the equipment, the roads, the tires, and the steel wheels on steel rails, which have substantially less friction, and so forth. Also, we have very much bigger engines in our locomotives that are more fuel efficient. That's an important factor. Over the last twenty years, the railways and the railway equipment manufacturers have squeezed another 7% efficiency out of locomotive fuel consumption for the same tonnage of freight movement. And we see other improvements possible.

We need to look more at using environmentally friendly fuels, such as biodiesel. It has been done experimentally. It works. It's exactly equivalent in performance to petroleum diesel, and it's certainly readily available in Canada and is a sustainable fuel; it will be there forever. We can use it and we can grow it. We get it as waste fat from animal processing, and there are many sources. In fact, a subsidiary of Maple Leaf Foods in Montreal is the biggest producer of it in Canada.

So there are things like that that are important to research and development.

Commercialization of research is important to us; that is to say, we would like to see our own members more involved in innovation and research. Programs such as the freight incentives program didn't have a very large budget, but it was a step in the right direction.

If other programs, such as the rail technology development fund, could be directed to suppliers' research that the railway equipment companies can perform, that would be a very, very positive application of funds released from the fuel tax.

And last, I'd like to mention the scientific research and experimental development tax incentive program tax credits. Some of our members have used those extensively. This is the nice thing in that when a tax credit helps a company justify spending money in R and D, and then, when the R and D is completed the product is developed and sold, the money certainly comes back to the government in the form of economic progress and taxes on the earnings from those products. So it's a nice feature.

But our request would be that it be made easier to use. That is to say, perhaps Industry Canada could be the intermediary for acquiring those tax credits, because at the present time, the tax auditors in CRA really don't know much about the industry, and their approach has to be a defensive one wherein they're defending reducing these credits or vetting them so they're reduced in size and magnitude, even though they were approved in the first place and the company has gone ahead and done the development. I don't think the tax people would be upset by having that responsibility moved over to Industry Canada, because it really is a nuisance to them too. They don't have the qualified people to evaluate these.

● (1540)

That's a very quick summary of our industry thoughts and needs. I hope we'll be able to have some interesting discussion and answer any questions you may have.

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

We will go to questions, starting with Mr. Lapierre for six minutes.

Hon. Jean Lapierre (Outremont, Lib.): Thank you very much.

First of all, thank you for your presentation.

On the capital cost allowances, we have heard that coming from the whole rail sector. As Minister of Transport, I supported that, but the Minister of Finance would never listen to me. I think this is some type of representation that should be made by your association in conjunction with the railways in the consultations for the next budget. I know it comes back every year, but it's worth really pushing that.

When I saw your name on the list, I thought, well, those guys must be making a huge fortune, because I hear of new investment being made by CN and CP, and those are probably your major clients. These guys are now reinvesting a lot, especially on the west coast. Is the business booming?

Mr. Glen Fisher: The business is doing well, but our annual growth in freight revenues on the railroads has not been as high as the annual growth in trucking revenues, and to me, that means we've lost market share. If we've lost market share, it means there's going to be more pollution, and ultimately, freight costs will be higher rather than lower to the public and the shippers. So losing market share is not a good thing. But, yes, the railway industry is doing well, because the economy has been doing very well.

Hon. Jean Lapierre: But is the problem of losing market share an effect of the fact that you haven't enough capacity and that has become a problem, especially on the west coast? Has it had the effect that you cannot keep up the pace of traffic that you could have, because of the equipment and the delays and everything?

Mr. Glen Fisher: That's an interesting question. A very short answer is no, there is no constraining capacity problem that would cause a short-term loss in market share. I would say there isn't even a long-term capacity problem, but there are things that need to be done to maintain the capacity.

One of the outstanding things that happened in the last few years is that CN and CP agreed to share the two tracks that run between Kamloops and Vancouver. Railway research takes a long time to happen. We worked on that more than twenty years ago and saw it as being a very positive thing, but it took that long for the railways to finally come to the point where the capacity on those two single-track lines had reached a tough decision point on how much capital would have to be spent to maintain the growth in traffic, and here was an easy solution: to share the track. That gave them an increase of somewhere between 200% and 400% in capacity.

There are lots of things such as that that the railways are doing elsewhere. They're running longer trains. In the mountains, they've been running radio-controlled locomotives in the middle of the train to allow a longer train to operate, and they're using those in more areas than before. There are many things of that kind.

Freight car weights have been increased from 263,000 pounds to 284,000 pounds, with no change in the rest of the car. This does require some strengthening of a few bridges on branch lines that were not originally built for those kinds of loads.

So there's a lot of flexibility in things that are being done that essentially keep the capacity ahead of the demand.

● (1545)

Mr. Jay Nordenstrom (Director of Government and Industry Affairs, Canadian Association of Railway Suppliers): I think it should be said as well that there is a differentiation between railways and the railway manufacturers. We all hear that the railways are making a lot of money now. If you'd bought into shares of CP and CN, you're doing quite well. It's the manufacturing sector for railway suppliers that we're concerned about.

There are 500 companies now that either manufacture or supply goods to the railways, and as we see, Bell Canada and Telus are new members, with their GPS systems and RFIDs. It's very high-tech now.

We have to make sure that when there's capacity or when we're trying to meet capacity and demand with the Pacific gateway or urban transits, the companies that are building it are healthy here in Canada and there is a healthy economic incentive to manufacture and supply these goods, as opposed to going elsewhere internationally.

Hon. Jean Lapierre: Talking about maintenance now, with the number of accidents that we've seen rising, I guess that's more potential business for you guys. I saw that in your submission, where you were talking short lines or passenger rail. In those two sectors, especially in the short line, the lifespan of most of that equipment has probably been *dépassé*. So the problem is that those companies that bought the equipment can't afford to replace the equipment or do the maintenance.

I know we had a lot of pressure from those small companies trying to upgrade their equipment, and it's the same thing for passenger rail. With VIA, the equipment is so old now that most of their employees are probably younger than the equipment. So I guess there's potential business there that the government could help in other ways.

Mr. Glen Fisher: Absolutely.

The Canadian manufacturers have been very much involved in most of those issues in the past. Certainly passenger rail equipment, like the LRC train, which VIA operates, is one of the most successful train projects. It originated in Canada. It was before its time. It's still at the top of technology, and it's one of the things that got Bombardier into railway equipment manufacturing generally. And there are other examples of that.

But yes, with regard to supplying replacement locomotives to the short lines, you've probably heard of RailPower. They're a company that makes hybrid locomotives. They're in Canada, and they have a lot of customers in the U.S and will get more as time goes on. They have a very good product that is extremely fuel efficient, is quiet, and has low emissions because of the much smaller engine and the battery power it uses. It charges the battery and runs like a hybrid automobile.

The Chair: Thank you.

Thank you very much, Monsieur Lapierre.

We'll go to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chairman. Good afternoon, Mr. Fisher.

Mr. Lapierre told us that the Standing Committee on Finance might be the best venue. I would point out that representatives of your industry appeared before the Standing Committee on Finance on November 30, 1999, November 1, 2001, and November 7, 2002. So you have already appeared before the same committee three times.

I was also under the impression that in 2000 the capital cost allowance, the CCA, was increased from 10% to 15%. If I understand correctly, you would like a 30% CCA to have the same advantages as other carriers, like planes, trains, and others that do the same kind of transportation, and benefit from a depreciation spread over five years.

So you want the same 30% depreciation. That would give you the same incentive that would enable you to operate. Is that correct?

[*English*]

Mr. Glen Fisher: Yes, that's absolutely correct. There's the problem of other modes having faster write-downs and better capital cost allowances than we have, and also the problem that I mentioned for our own suppliers of there being a tendency to choose U.S. leasing companies and U.S. suppliers because of the lower capital cost allowance to the U.S. leasing companies. But the competition with the other modes is an important aspect of it too.

● (1550)

[*Translation*]

Mr. Robert Vincent: I would like you to tell me a little bit more about leasing. There are Canadian lessors, and some companies buy their cars in the United States. I would like to know the difference between Canadian and American lessors, because that aspect seems equally important for you for buying new cars. Given current trends, you need, among other things, longer rail cars.

I would like to hear your opinion on leasing.

[*English*]

Mr. Glen Fisher: We have three renting companies that are members of our association. There may be more, but there are three fairly large ones that we're quite familiar with and work with. They are the ones that are affected most by this. They also have U.S.-related parts of their companies. Some of them are the same company, and they have a Canadian subsidiary that works with leasing here.

The railway equipment manufacturing...obviously, railway equipment is wearing out and needs to be replaced. We used to have a larger manufacturing industry than we have now. I can't bring the numbers to mind instantly—it is probably about 50% of what it was about 25 years ago—and that would have to be increased for the volume of cars needed by the railways today compared with 25 years ago. One of the things we've done is improve the efficiency of the train operation so that our manufacturers, our suppliers, are not selling as many cars because the users of the cars are being more efficient. They don't leave them sitting in the sidings as long, so we don't sell as many cars. There are two sides to that. Ultimately, the efficiency is better for everybody, for the manufacturers, for the railways, and for the country.

There's been a lot of concentration of rail car manufacture in the U.S., and there are only a couple of very big companies now, so that's what we're competing with in the U.S.

[*Translation*]

Mr. Robert Vincent: You have to put out an additional 23% to end up with the same transportation rate as in the United States, the same cost effectiveness in terms of transportation. Is that still the case today?

[*English*]

Mr. Glen Fisher: I'm not sure what you mean—23% more than what option?

[*Translation*]

Mr. Robert Vincent: If we compare Canada and the United States, for equipment or transportation to be the same, it cost you 23% more than in the United States.

[*English*]

Mr. Jay Nordenstrom: In the U.S. they can write off their rail equipment in eight years whereas in Canada it's twenty years. To bring it up to 30% would pretty much bring us on par, and that would be harmonized, as far as cost analysis to that.

Mr. Glen Fisher: That would be a good summary perspective of the 23% difference for the rail cars themselves. They are only a small part of the whole, of course, but they are a very significant part, and the investment in rail cars is a significant item on the railways' balance sheets and is a significant income to our members and a significant portion of the employment of our members in Canada. So we lose something on that.

The problem is more complex than that, of course, because some rail cars only operate in Canada. Some operate internationally and some operate only in the United States. There are little differences in the investment criteria for those, and of course in the tax rates applicable to those. If they stay in the United States, obviously the Canadian railways will lease from our U.S. leasing company. If they're used in international service, they could be either one or the other, whichever is cheaper for the railway, and we generally lose out on that because the U.S. ones will be cheaper, as you've described it.

The Chair: Thank you.

We'll go to Mr. Carrie now.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair.

I want to thank the witnesses for coming here today. As you know, we're undertaking a study of the manufacturing sector in Canada, and our big interest now is to see what the government can do to help in the challenges facing the manufacturing sector. We've heard that really right now it's like a perfect storm in a lot of ways.

I was really encouraged when I heard a former Minister of Transport say that he was supportive of changing the capital cost allowance.

I was wondering, with the new government, have you had the opportunity to bring the railways' capital cost case to finance officials with the new government, and if yes, what responses were you given?

● (1555)

Mr. Jay Nordenstrom: Glen presented two weeks ago to the Standing Committee on Finance. There was difficulty with the committee appreciating why we would need these tax incentives when we were making so much money. We talked about the shares being so high, but we really have to make that differentiation between the railways and the manufacturers. They need to buy what they need to make sure they're meeting their demand, but whether they're buying from us and we're contributing to the economic footprint in Canada or they're doing it somewhere else is the question we need to pose. We need to make sure we have a very competitive environment so that we can continue doing research and development and being world leaders in innovation.

We've done so much to automate ourselves and to become very self-sufficient as a sector. We see other emerging countries like China simply buying up technology. They don't want to buy from us; they want to learn how we do it and reproduce it themselves. If we don't sell it to them, they'll just rip it apart and figure out how to do it.

That's our reality. Whether that's legitimate or not, it's the context in which we have to compete. So we have to make sure we have a competitive environment here in Canada for rail manufacturers.

Mr. Colin Carrie: You had the opportunity to plead your case, so to speak, but you really haven't had any responses from the officials?

Mr. Glen Fisher: We haven't had any from the present government since this presentation was made, but we're hopeful of having a response.

By repeatedly presenting it to different groups—different finance committees, different parliamentarians—the situation is becoming better understood, and perhaps we're getting a little more skilled at explaining it. I think there is some light on the horizon with Finance.

Mr. Colin Carrie: In its budget the new government did have record tax cuts. Listening to the witnesses we've had, it appears that they're almost unanimous in saying we need to go even further than we're going now.

Do you have any numbers on the impact of the benefit of the tax cuts we've made here in 2006, or any projected impact for your association members?

Mr. Jay Nordenstrom: A lot of our SMEs did benefit from many of the corporate tax cuts that were given. But on the future of our sector, I'll give you an example. One of our member companies, RailPower Technologies, used the freight sustainability demonstration program to develop the Green Goat, which is a hybrid locomotive. We were disappointed to hear that the program, which I believe gave a subsidy to CP to test these programs, is no longer available. Whether it's called that or something else, we need that kind of structure to ensure that we're developing those kinds of innovative technologies.

But as far as a lot of those tax incentives are concerned, our members were quite happy with them. As to numerical data on how that has helped us out, I don't have that information with me.

Mr. Colin Carrie: Can you think of any other ways the government could encourage greater utilization of rail transport in this country?

Mr. Glen Fisher: I think it's an issue of the railways themselves becoming more competitive, more efficient—and more competitive with trucks specifically. Better operations through technology will make their costs lower so they can be more competitive with trucks.

The two areas there are freight rates and speed of service. The railways have always been able to compete with the trucks on price, but being able to compete with them on speed of service has been a running battle throughout history, since trucks became competitors to the railways. There's a lot of technology that will help them, as Mr. Nordenstrom mentioned, like GPS tracking of trains and locomotives and better record of movement of products. Our ability to track the movement of freight items, containers, and freight cars has been around for almost forty years now. Canadian railways were almost world leaders in that. They were right up at the top with the best of the U.S. railroads when the application of computers to the railways started.

So there is a future in being more competitive, and the government can perhaps help with support on technology and research. That would have the most effect in the long run.

● (1600)

Mr. Jay Nordenstrom: We also talked briefly about incentives. If we believe that freight, in addition to passenger transportation, has societal benefits, then giving tax incentives to shippers who take a greener way from port to market would certainly help the rail industry. I have nothing against trucking, but I think we need to have a multi-modality strategy within trucks and rail, more of an umbrella policy. Certainly, that would give a shot in the arm to the manufacturing industry as a trickle-down.

The Chair: Mr. Angus.

Mr. Charlie Angus (Timmins—James Bay, NDP): I'm pleased to be able to speak with you today. I'll put it on the record that I am a hopeless romantic for trains. I love passenger trains, and I spent my growing-up years on the Ontario Northland, on the night train. I say this because I'm interested in the fact that we are, in freight, the most efficient country in the world, and that's very heartening. In passenger service, however, I'd imagine that we're not even in the game. I'm looking to see if you have any recommendations on a policy or a strategy that would encourage passenger service of the kind we see in Europe.

Mr. Glen Fisher: That's a good question. I could spend a lot more than six minutes talking about it. It's upfront in our minds in the work we're doing. Our members are doing things like inventing crossing protection systems that will be a fraction of the cost of the conventional ones. These will have an impact on passenger operation. Basically, it's the passenger trains that are restricted by inadequate crossing systems. They can't operate at the speeds they should be able to go at.

Equipment and technology are pretty well available. What's missing is the incentive for people to take the train in volumes sufficient to make it worthwhile. Our commuter trains operate very well. It's the intercity ones that are not doing so well. We have good commuter services in Montreal, Toronto, and Vancouver, and they're getting better.

Personally, I think the costs are still too high. I think the way to get people out of their automobiles is to come up with costs that are comparable to the gasoline out-of-pocket cost. If we could have fares that meet those criteria, then I think all the people would become real fans like you.

Mr. Charlie Angus: Has your organization come up with concrete proposals? We would need to look at an incentive system to encourage a transformation of intercity passenger rail. Do you have concrete proposals on how we might go about that?

Mr. Glen Fisher: As an association, no. But some of our members have been pursuing things like that.

Mr. Jay Nordenstrom: We now see the three levels of government working together on a gas tax going towards public transit. We also see initiatives that result in more investments. In our backyard, just look at the O-Train. In Montreal and Toronto there are big investment projects as well. We are seeing more public funding, triggered by an awareness of the societal benefits of public transit. In the next couple of weeks we're hoping to see some strong wording in the government's green document.

● (1605)

Mr. Glen Fisher: Another answer to your question is that there are two areas of very significant development that will help.

One of our members has done a great job of putting together the prototype of a locomotive upgrade for VIA Rail that modernizes twenty-year-old diesel locomotives. That was important, because there isn't a new product on the market. You can't just go to the locomotive manufacturer and say you want twenty nice, new passenger locomotives. They're making 1,000 freight locomotives a year, and this product just isn't available anymore, so upgrading the old locomotive was a fantastic idea. VIA wrote the specs for it, and one of our members has done the work. But they need the funding to upgrade the fifty remaining in the fleet. They have the prototype done now.

This is something that is with the transport ministry, and probably the transport committee, to look at. But it's important to us as an industry, because it's our members who are doing the work. I've seen the work.

The second thing is that we have the capability to do railway electrification for passenger services. We have technology that was acquired in the early 1980s from Sweden. One of the problems in going to a different technology like that is how it will work in our climate. What do you do about snowplowing and snow removal, and will it work at minus forty? A lot of these systems won't, but the one that was brought into British Columbia about twenty years ago was acquired from a railroad that operates north of the Arctic Circle.

We have the technology. We have the capability. We just need the incentive to move a step further with it, and this is where the government could help.

Mr. Charlie Angus: I have just one more question in light of designing a new passenger car.

These are big-ticket items. Companies aren't buying them every day, and you need a dedicated industrial capacity that can do that. Has the loss of some of that industrial capacity—you said it was 50% since the 1980s—left us with a gap in being able to take advantage or move forward if the railways are interested in examining newer technologies?

Mr. Glen Fisher: It has hurt us on the freight car side of the business but not on the passenger car side. Bombardier has done very well and has a good market in the U.S., with technology that was originally developed here in Canada. The commuter cars made in Thunder Bay are considered to be the most attractive ones virtually in the world. Certainly they're attractive to 14 operators in North America. The Toronto Go Train recently acquired some of those cars in Montreal. It's our member, Bombardier, that acquired the plant and the designs to make them, and they've been an ongoing product. The Vancouver Sky Train was designed and made in Kingston, Ontario, by UTDC originally and Bombardier now.

That market is still there, and there's a risk we will lose more of it to the new entrants into the railway industry from Korea and some other countries that are making pretty good products and taking market share away from our members. But it's not market share in Canada. What has sustained us is the export of those products. They're still there. They're still being developed. They're new products. There are new changes to them. When these GO Transit-type cars—as they're more popularly known—are made, the laser welding of the aluminum side plates is magnificent. It's just top technology in manufacturing.

The Chair: Thank you.

Thank you, Mr. Angus.

We'll go to Ms. Stronach for five minutes.

Hon. Belinda Stronach (Newmarket—Aurora, Lib.): Thank you, Chair.

Thank you for joining us in committee today.

I have a few questions. I'll just go through them one by one.

I'd like to get a sense of how many jobs pertain to your sector.

Mr. Glen Fisher: There are between 60,000 and 65,000.

Hon. Belinda Stronach: Where are most of those located? In which geographic area are they?

● (1610)

Mr. Glen Fisher: They are mostly located in Ontario and Quebec, but there are quite a few in Alberta, surprisingly. The third-largest group is in Alberta.

Hon. Belinda Stronach: As you already know, the former Minister of Transport was in favour of levelling the playing field, so to speak, with respect to the capital cost allowance. Perhaps you could illuminate that in terms of the overall positive economic benefit to the country, toward our competitiveness.

Mr. Glen Fisher: To make a very rough sort of assessment, it would give us about 20% more production of freight cars. That is, we would not be losing so much to the U.S. manufacturers. I would guess about 20%, and if we were really lucky, maybe a 25% increase in freight car production that would probably represent maybe 500 or 1,000 jobs—quite a lot of income for smaller suppliers. It isn't only the welding of the freight car from steel plates; it's all of the parts that go together, the brake systems and all the little bits and pieces.

Hon. Belinda Stronach: I would assume too that it affects the supply chain to the suppliers, and there's another spinoff after in terms of jobs that are affected.

Mr. Glen Fisher: Yes.

Hon. Belinda Stronach: Has your sector lost investment that has gone elsewhere to other jurisdictions, because there isn't such a level playing field? For example, in the automotive industry, which I know reasonably well, there's been a great deal of jobs leaving North America, and even Mexico, to go to lower-cost plants.

Mr. Glen Fisher: The same thing has happened to us, probably not quite as dramatically or as suddenly, but definitely a lot of production is being done in Mexico and a lot of components are being imported from China. So we've lost those, and it's a substantial loss.

Hon. Belinda Stronach: What do you see as the risk to jobs if this doesn't go forward, if there isn't a level playing field with respect to the capital cost allowance?

Mr. Glen Fisher: I think a continued deterioration in freight car purchases, which will probably result in one or the other of the two freight car manufacturers in Canada giving up and moving to Mexico. So we'll go down from about the four we had twenty years ago to two now, and only one, if we don't get some redress on that issue.

Hon. Belinda Stronach: I'm a big supporter of making sure we have a sector by sector strategy to maintain competitiveness, to keep manufacturing jobs here in Canada. Given the global environment, the competitive environment we're in, I think we in government have an obligation to ask how we can enable your sector to become as competitive as possible.

Are there any other risks to your future competitiveness aside from the capital cost allowance that would need to be addressed?

Mr. Glen Fisher: Do you mean that are within our control or the control of the government and government policy?

Hon. Belinda Stronach: Yes.

Mr. Glen Fisher: There are things that are a little bit difficult to deal with. I hesitate to single out one incident, but the generalization that the one incident shows is that there are imports coming from countries duty free because they were considered developing countries. Canada Customs and Excise shouldn't be granting duty-free status to countries that are not actually still developing countries.

There's one instance that happened not too long ago, and I think this would help us. I'm all for helping the developing countries. I don't mean to say anything negative about that. It is good that we would buy equipment with duty exemption from countries that are less developed, but once these countries have become an industrial power, even if they were once developing countries, that status should be removed. They should have to compete like any other developed country, and where there are some duties for import from those regions of the world, then they should apply to these countries too.

Mr. Jay Nordenstrom: I would like to add two things. One is the R and D. We need predictable, stable funding in those areas where we can go. The only thing we have to our advantage is our technology. Labour has gone now. It has gone elsewhere. We have to have the best product. They are going to pay more for it, but they're going to have better usage, better efficiencies, and better environmental standards.

Second, we need to get better at getting our product from university out into the market. It is simply not there yet.

● (1615)

The Chair: Thank you, Ms. Stronach.

Mr. Shipley, you have five minutes.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chairman.

I want to thank you for coming. I find it interesting. When I was mayor, we had a lot of trains that went through my municipality, and we still do.

He is not here right now, but Mr. Angus talked about transit and getting ridership up and those sorts of things. I would like your comments, because what we are trying to do, especially in the large built-up urban areas, is get people out of their vehicles as much as we can by having improved rail and transit systems for riders to use.

We introduced a transit tax credit of 16%, and I am wondering whether we are on the right track. I would like to get your comments and your position on that.

Mr. Glen Fisher: It's a little off to the side of our direct interest, but I am quite interested in it because it affects the market for our services and products very strongly. I would rather see some way of reducing fares for everybody rather than a tax credit, because a tax credit doesn't help students or people who have marginal incomes who really need to use the public transit. But some arrangement whereby something like a larger percentage of the burden for the capital cost of new equipment would be removed from the transit operating agencies—anything of that kind that would allow them to reduce their fares by the same amount—is a very positive thing, because public transit, and certainly intercity passenger train transportation, is extremely cost-sensitive. The market shift from one mode of transport to the other is very much affected by small differences in cost.

Everybody likes riding by train better than driving their own car in traffic, for sure, but it has to be cost-competitive, and unfortunately it isn't. Even the commuter operations now, while they're cost-competitive, are not seen by the public as being cost-competitive. A hundred dollars a month for a commuter pass is a lot for some people to shell out, unless they know exactly where they're going all the time, they have a regular job, they know they'll have to pay for parking—that kind of thing. So anything we can do to lower those costs, for example, lower the one-trip cost from something like $5 down to $2 or $3, will help.

There are things that can be done—perhaps working with the transit agencies themselves to get their views on what kind of help would work best for them, whether it's capital equipment or some other approach.

It's the right direction to go. I agree with you totally on the first step, but I think there are other things that need to be done.

Mr. Bev Shipley: I think you'll find that things usually will take place a step at a time. I think we need to respect the fact that we've tried to take one step, and I wanted to get to that. When I go to Europe, for example, there's an unbelievable rail system, and I want to go back to that.

Actually, the numbers were amazing. I think 20% less fuel; tonnes per kilometre is 500% or better. Did I hear that right?

Mr. Glen Fisher: No, it's only 20% of the amount of fuel; it's 500% less fuel.

Mr. Bev Shipley: When you start talking these sorts of numbers, does this take in the actual capital cost of all the infrastructure, or is this just for the—

Mr. Glen Fisher: Yes.

Mr. Bev Shipley: Roads and everything?

Mr. Glen Fisher: It's amortizing the track, the road, the tunnels, the bridges, the rolling stock—everything.

Mr. Bev Shipley: In comparison to a truck on the road, with the road—

● (1620)

Mr. Glen Fisher: With the road not being part of the truck's direct cost except through licensing fees and gasoline—

Mr. Bev Shipley: To really help, I'm wondering what sorts of alliances you've built with the train companies—the CPs, the CNs, the whatevers of the world that are out there. It really makes sense to me then, if you have built-in efficiencies, including the capital cost. Then it's almost a no-brainer. Yet we had tracks being ripped up, and you just talked about taking out two tracks.

If we're talking about the environment and you're becoming that much more efficient than delivering by other means, I'm wondering about your strategy on marketing—you touched on that, but I mean the other part of it, building alliances so that we aren't ripping up the rail to be moving these goods.

Mr. Glen Fisher: Did you want me to add some comments to that?

Mr. Bev Shipley: Well, the question is, I guess—

The Chair: You're out of time.

If you want to add a brief comment...but if you don't, that's fine.

Mr. Glen Fisher: Comparison with Europe and North America is very difficult. Our freight rates are one-quarter of what they are in Europe, but our passenger service is nowhere near as good as European passenger service. That doesn't mean that the passenger fares are necessarily cheap in Europe. They have some great plans, though. In Switzerland you can get an annual pass and you can go anywhere on Swiss railways for a very reasonable price if you buy the annual pass.

The problem we have that is so different from the Europeans is geography and distance. I live in Montreal, and as I have to explain to people about some of these things, you can put the whole of western Europe in the province of Quebec geographically. We have a totally different problem with intercity passenger train service.

The Chair: Okay, Mr. Fisher, we're going to move on.

Monsieur Crête is next.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Mr. Chairman, I will be brief, as there are only a few minutes left.

In your brief, it says: “There are also vast, largely untapped export markets in countries such as China, which could and should be pursued proactively.”

I would like you to explain that for us. Would you like a delocalised market to be developed so that we can keep design and development? Is the Chinese market—with, for example, the train between Beijing and Tibet—an important market in your opinion?

I would like you to explain your openness to that and to tell us what you would like to see the government do in that regard.

[*English*]

Mr. Glen Fisher: It would be hard to spell it out that quickly.

One of the things that is surprising to most Canadians is that Chinese railways are North American railways. It was designed by an American engineer in 1907. You could take a Canadian freight car off the tracks here and put it on the tracks in China, and the air brakes would work and the couplers would mate with the Chinese couplers; we have a lot in common. We have an advantage over the Europeans. Also, China is a very big country, geographically.

Canadian companies have done well in China. I think the major thing the government could do for us is assist Canadian industry with sales promotion in China. That's the most important thing. Yes, they do buy our products and technology. Yes, they do like to manufacture our products there once they find out how good they are, but it's a two-way street. It's not all in their favour; it helps us too.

[*Translation*]

Mr. Paul Crête: Do you think that the solution lies in joint ventures for parts that are not made in China? I think that we would have a difficult time today competing with Chinese cost of production for renewable parts. Is that what you would like?

I would also like you to talk about additional efforts the government could undertake. What shape should they take in terms of promotion? The train between Beijing and Tibet is a significant example of technology.

What would you like to see the Canadian government do about traditional parts that you talked about and to keep that place on the market?

[*English*]

Mr. Glen Fisher: I think we would like some help in trade missions, whereby the cost of the trade mission would be covered to a greater extent by government. It used to be that some of those costs were either entirely or largely covered. This would help a lot, because it costs a lot of money—a large proportion of their marketing budget—for a medium-sized business to buy air tickets to China.

Obviously it has to be done so that it's not a lavish investment. On the other hand, there also needs to be some financial incentive to help Canadian companies become more familiar with the market there, and it's very real; I've been there many times.

[*Translation*]

Mr. Paul Crête: Do you know enough about China to know if there are fairs where presentations can be made? Would it take the shape of a mission or of an objective with a series of missions specific to the railway sector?

● (1625)

[*English*]

Mr. Glen Fisher: I think organized missions would be the best, along with some financial assistance to participate in those organized missions. From a cultural and linguistic point of view, it's not an easy thing to jump into, but having done it myself, I can say that neither the language nor the culture is that daunting. It's not that hard.

The Chinese do not like to deal with an agent. They like to deal with the principal in the business, so people running around saying they're agents, they have good connections, and they will do all kinds of good things for them doesn't work in China. They're much more sophisticated than that.

Trade missions, whereby the Canadian government can help Canadian manufacturers to actually sit down one on one with Chinese railway companies, would be good. There are a number of private railway companies. There's a big government ministry of railways, but there are a lot of smaller ones too, some privately owned by the state governments and some owned by industry. Government missions could bring the people there and acquaint these people, for the first time, with the fact that doing business with China is not as daunting or as difficult as it may seem.

[*Translation*]

Mr. Paul Crête: In closing, the Canada-China Parliamentary Association and Senator Austin— who has very good connections in China—could serve as a link for you and enable the government to get special attention.

[*English*]

Mr. Glen Fisher: That's an interesting idea.

The Chair: I think this clock is a little fast, so we have about two minutes left. We are going to go to Monsieur Arthur, for two minutes.

Mr. André Arthur (Portneuf—Jacques-Cartier, Ind.): Mr. Fisher, a few years ago the Canadian government and VIA Rail decided to buy totally finished British railroad cars and rebuild them for a cost of nearly $1 million each.

Do you have any notion of how much this disaster cost your image and the image of Canadian railways?

Mr. Glen Fisher: I think that is a good question. You're asking the right person.

VIA sued me for speaking up about that, and I finally won $17,500 in legal fees from VIA as a result of it.

Yes, it hurt our image a lot. It should not have happened.

Mr. André Arthur: And you don't build submarines either.

Mr. Glen Fisher: We don't build submarines either.

Mr. André Arthur: It seems part of the same nasty deal.

Mr. Glen Fisher: You would have to say that a submarine that won't stand salt water is not much of a submarine. The same is true of that VIA equipment.

VIA could have bought Bombardier-made Canadian equipment for fewer dollars per seat than the original price, not counting the $1 million per car of upgrading. If you add that into it, it would have cost about 50¢ per seat to buy top-quality Canadian equipment. So that was a big mistake.

Mr. André Arthur: Were you able to explain that mistake to yourself? Was there something fishy? Was there something dishonest? Was there some corruption there? How do you explain that?

Mr. Glen Fisher: I wouldn't know. You would have to ask the principals.

But there has to have been some misunderstanding that this equipment was somehow more valuable than it really was. I think that would be the fair way of explaining it. Whether there were other things involved, I don't know.

Mr. André Arthur: Thank you, sir.

The Chair: Thank you, members. Thank you very much for being with us today. We appreciate the questions and comments and the give and take.

You've made some very specific recommendations. We appreciate that. If you have any further specific recommendations you'd like to make and that you'd like us to recommend, particularly on the four programs you mentioned, please forward that to us. Thank you for being with us here today.

Members, we will suspend for about two minutes in order to allow these witnesses to leave and allow the trade officials to come in.

We will suspend for two minutes.

● (1625)

(Pause)

● (1630)

The Chair: Let's regroup, members, and get back to the table.

For our second hour today, in the context of our study on the manufacturing sector, we have witnesses from the Department of Foreign Affairs and International Trade with respect to the prospective trade agreement between Canada and South Korea.

Because we did invite the witnesses on very short notice—and we do appreciate their being here today—I understand there isn't anything formal to hand out. But we do have, from Industry Canada, a report, *Partial Equilibrium Analysis of the Impact of a Canada-Korea FTA on the Canadian Automotive Industry*, in both English and French, which we can distribute to members. Obviously the presentation here today will be distributed to members once we are able to translate it.

I believe it will be Mr. Burney, the chief trade negotiator, who will be doing the presentation. I would ask him to keep that presentation to ten minutes.

Mr. Burney, please, and perhaps you would like to introduce your colleagues to members of the committee.

Mr. Ian Burney (Chief Trade Negotiator, Bilateral and Regional, Department of Foreign Affairs and International Trade (International Trade)): Thank you very much, Mr. Chairman.

We are certainly pleased to have this opportunity to brief you on the Canada-Korea free trade agreement negotiations, for which I lead Canada's negotiating team.

Joining me today are some colleagues from the Department of Foreign Affairs and International Trade: David Plunkett, the director general for bilateral and regional trade policy; Marvin Hildebrand, director of the bilateral market access division; Kendal Hembroff, deputy director of the bilateral market access division; and Cam MacKay, deputy director of the regional trade policy division and also the deputy chief negotiator for the Canada-Korea talks.

● (1635)

[*Translation*]

Before going into greater detail about the Canada-Korea Free Trade Agreement initiative, allow me to give you some background.

Committee members are well aware of the importance of trade for the Canadian economy. In fact, almost one job out of every five in Canada is trade-dependent. To maintain job growth in the country and to ensure prosperity, we must open our markets and create more opportunities for Canadians to do business abroad. Unfortunately, all WTO negotiations were suspended in the summer, and we still do not know when they will resume.

[*English*]

At the same time, Canada's key competitors are now accelerating the already aggressive pace of their bilateral negotiations. They are seeking, and obtaining, preferential access to dynamic markets around the world, putting Canadian firms at a competitive disadvantage.

As Minister Emerson said on a number of occasions, Canada has not been keeping pace on this front. For example, since the WTO negotiating round was launched in late 2001, the United States has concluded FTAs with 15 countries while Canada has concluded none. In fact, we're the only significant trading nation that has not concluded a single FTA in five years.

While some have suggested lately in the media that this does not matter and constitutes a poor rationale for pursuing FTAs, the reality is that our relative performance in negotiating FTAs can and does have a material impact on the competitiveness of our firms in foreign markets. This is not an academic concern to our exporters or investors. Canadian companies are already telling us they're losing markets, and they're losing sales in foreign markets, due to the FTAs of other countries. They're calling on the government to level the playing field.

Looking ahead, while we'll continue to strengthen our NAFTA ties and work to secure a successful outcome to the WTO talks, at the same time we have to put greater emphasis on our regional and bilateral agenda, including initiatives such as the Canada-Korea FTA negotiation, which I'll turn to specifically now.

With a population of 48 million and a GDP approaching $1 trillion, Korea is the largest of the four Asian tigers and already the world's eleventh largest economy. That makes this the most ambitious bilateral FTA negotiation that Canada has launched since NAFTA, more than ten years ago. What we're seeking is a comprehensive, high-quality agreement with Korea, modelled on NAFTA.

In the core area of market access for goods, services, and investment, we're seeking ambitious liberalization and comprehensive coverage. A particular area of emphasis with Korea continues to be on non-tariff barriers, such as regulatory and transparency issues, which have been identified by our stakeholders as important impediments in the Korean market. Fundamentally this initiative is about enhancing opportunities for Canadian business.

Why Korea specifically? For starters, Korea is a large, prosperous, and fast-growing market for Canada, strategically situated in one of the most dynamic economic regions of the world. Korea is already Canada's seventh largest export destination. In fact, we exported more to Korea last year than we did to Brazil, India, and Russia combined.

Korea is also becoming a major services market for Canada, with over $700 million in services exports last year, and two-way investments stand at $1.1 billion. An FTA with Korea could generate much more two-way business by dismantling the tariff, regulatory, and other barriers to commerce that limit opportunities.

Korea continues to maintain relatively high tariffs, 13% on average, versus only 4% for Canada. Therefore, the elimination of tariffs in an FTA would generate substantial opportunities for Canada and, one could argue, would have a disproportionately favourable impact on Canada.

The Korean market is particularly important for the agriculture- and resource-based segments of the economy, with an FTA expected to generate gains in areas such as agrifood, fisheries, metal and metal products, a wide range of forestry and wood products, and coal and other minerals.

In the agriculture sector alone, Korean tariffs average around 53%, substantially higher than Canadian tariff levels. In the fisheries sector, Korean tariffs average 18%, while ours are a little over 1%. So eliminating Korean tariffs would clearly provide major opportunities for Canadian exporters.

We also expect gains in a variety of industrial and manufacturing sectors, including chemicals, aerospace and urban transportation equipment, fertilizers, auto parts, pharmaceuticals, cosmetics, prefab buildings, environmental goods, and machinery and equipment, to name a few.

I believe these are some of the sectors that this committee has been looking at.

As well, we believe there are opportunities in the services sectors of the economy, where 80% of new jobs are created in Canada today. Some examples include financial, high-tech, and environmental services.

An FTA would also provide a more secure and predictable climate for Canadian investors in Korea and would assist in attracting Korean investment to Canada. That in turn would help open doors for Canadian businesses in neighbouring markets, such as China and Japan. Intraregional trade has been growing exponentially, so Korea could become an important entry point for Canadian companies.

● (1640)

[*Translation*]

As I said earlier, Canada's bilateral FTA program is also guided by the need to ensure that Canadian companies can face competition on an equal footing.

Korea is perhaps a newcomer in the world of free trade agreements, but it has already signed agreements with 15 countries in recent years and is actively attempting to negotiate others with several other countries. The free trade negotiations currently underway between Korea and the United States are of course of specific interest to Canada, given how integrated our industries are in certain sectors, like the automobile industry and our aggressive competition with the United States on world markets in agriculture for instance.

More recently, we have learned that Korea and the European Union are considering the possibility of negotiating a bilateral trade agreement. There is no doubt that that raises the stakes for us and highlights the importance of preserving Canada's competitiveness in this important market.

[*English*]

Where are we now? Since launching negotiations in July 2005, we've held seven rounds of talks with Korea at roughly two-month intervals. The most recent round of negotiations was just last week here in Ottawa and the next is scheduled for the week of November 20 in Seoul.

We've made good progress to this point, but we're now touching on the key sensitivities on each side. Canada is pressing for improved access to Korea's highly protected agriculture, fish, and forestry markets, and Korea is seeking faster cuts to Canada's tariffs in sensitive manufacturing sectors such as autos. There's no deadline for concluding these talks, and Minister Emerson has made it clear that our emphasis is on seeking a good agreement with Korea, not a fast one.

Let me now turn, if I might, to the auto sector, the area of this negotiation that clearly has attracted the most attention here in Canada. Given the importance of the auto sector to the Canadian economy and to our overall trading relationship with Korea, the government has devoted particular attention to issues involving this sector and this negotiation.

We've set up a working group within the negotiating structure with Korea focused exclusively on automotive issues, and to support the negotiations at the table we've established a dedicated automotive consultative group here in Canada. The group meets regularly to ensure that industry views are well understood and reflected to the extent possible in our negotiations. The work of this group has been supplemented with additional meetings with industry at all levels.

Just this morning Minister Emerson had his most recent discussion with auto industry representatives on a range of trade issues, including the Korean FTA. Two weeks ago the minister had what I would characterize as a positive and constructive meeting with a delegation from the Canadian Auto Workers, led by its president, Mr. Buzz Hargrove.

So there's been no shortage of dialogue with the industry, and their views have played an important role in shaping our approach to this negotiation from the outset. For instance, Canada's automotive sector has expressed concerns regarding a range of non-tariff barriers in the Korean automotive market. That's why the government has made addressing non-tariff measures a key priority for us in the negotiations.

At the same time, Canada's domestic automotive industry has expressed concerns regarding the potential impact of eliminating Canada's automotive tariff in the context of a Canada-Korea FTA. Members of the committee may be aware that in September the government released two studies that conclude that any negative impact on the automotive sector from an FTA with Korea would be very limited.

The first study, mentioned by the chairman, was conducted by Industry Canada and estimates a decrease in Canadian production on average of less than 1,000 units per year, which represents 0.04% of the 2.6 million vehicles we produce in Canada each year.

The Industry Canada assessment is supported by a second study commissioned by Foreign Affairs and International Trade Canada and carried out by Dr. Johannes Van Biesebroeck from the University of Toronto, a respected academic who specializes in economic analysis of the automotive industry.

Like the Industry Canada study, Professor Van Biesebroeck concludes that a Canada-Korea FTA would have only a modest impact in terms of additional imports from Korea, less than 10%, and that this would come largely at the expense of other imports. The study therefore concludes that an FTA would result in only a fractional decrease in Canadian vehicle production of 2,137 vehicles, representing 0.08% of production.

At the same time, the study projects that Canadian automotive parts exports to Korea stand to benefit from tariff elimination and forecasts increased Canadian exports of between 8% and 12%. The central conclusion of both studies that there would be little impact on Canadian production reflects a variety of factors: the low tariff, 6.1%; the preponderance of imports in our market, which account for about three-quarters of sales; and the fact that Korea has only 8% of the market by volume.

● (1645)

The Chair: I would ask you to please conclude.

Mr. Ian Burney: Okay, I'll wrap up in one minute.

It's also worth mentioning that a significant share of Canadian production, about 30%, has no comparable competition from Korea. Then there's the fact that the vast majority of Canadian production, about 84%, is exported to the United States, which would obviously not be directly affected by an FTA with Korea.

Another factor not taken into account by other studies, but that would mitigate the impact of an FTA with Korea, concerns recent investment decisions by the Korean makers. Hyundai has opened a major new plant in Alabama, and both it and its subsidiary, Kia, have announced plans for further assembly plants in the NAFTA area, from which Korean cars could be exported to Canada duty free under the NAFTA.

For all these reasons, the government's assessment is that the incremental impact on Canadian production from tariff elimination in a Korean FTA would be minimal.

On that note, Mr. Chair, I'll conclude and accept questions. Merci beaucoup.

The Chair: Thank you very much Mr. Burney.

We'll go right to questions.

Mr. Lapierre, six minutes.

[*Translation*]

Hon. Jean Lapierre: Thank you, Mr. Chairman. Mr. Burney, lady and gentlemen, welcome to this committee.

I met with people from the automobile industry today, and they do not seem to share your optimism about the damage that a free trade agreement with Korea could cause. One of the aspects they talked about was the fact that Canada and most countries have a penetration rate for foreign vehicles that is up to 40%.

In the case of Korea, this rate is about 2%. The Koreans, especially because of non-tariff measures, are extremely protectionist, and as a result almost no foreign cars are sold in their market.

So, would this agreement deal with all of the non-tariff measures that have made this such a protectionist country?

Mr. Ian Burney: Thank you for your questions. I would say yes.

As I said in my presentation, one of the main priorities of the government is to eliminate non-tariff measures in the Korean market. That is a high priority for us in the automobile industry. We know full well that the Korean market is not very open and that there are problems with the 8% tariff. But the more important issue is the issue of non-tariff measures. That is why we would like to see an appendix in the agreement that would focus exclusively on provisions for the automobile industry to address non-tariff measures.

We are in regular discussions with the Canadian industry to ensure that these measures will meet their needs.

Hon. Jean Lapierre: I understand why Canada wants to negotiate with Korea. However, it is the agreement with the U.S. that counts and, in that respect, we shall be like the tail on the dog, the agreement with U.S.being the dog.

Do the Americans have the same concerns? I imagine that you are in constant contact with them. There is no doubt that they will not be willing to give you anymore than they are willing to give to the Americans.

Are the Americans facing the same difficulty in terms of these shocking protectionist non tariff measures?

Mr. Ian Burney: Yes, the U.S. automobile sector is facing exactly the same problem and, you are right, I have regular contact with the U.S. chief negotiator. We have had meetings with the U.S. government and the U.S. and Canadian automobile sectors to coordinate our efforts.

We began negotiations with the Koreans at least six months before the Americans did. However, as regards the automobile sector, our objectives are similar and we have a common approach when it comes to putting pressure on the Koreans.

Hon. Jean Lapierre: One sector that you have not mentioned is shipbuilding. What effects would a free trade agreement have on the shipbuilding industry We know that the Koreans have different methods and prices. Do you think that an agreement would sound the death knell for the Canadian shipbuilding industry?

● (1650)

Mr. Ian Burney: I do not think that it will sound the death knell for the Canadian industry. The shipbuilding industry is concerned about this initiative, but I do not think that Korea constitutes a real threat as its industry is concentrated in a different market sector. The Korean industry is primarily involved in building very large vessels, while the Canadian industry is more focused on small and medium-size vessels.

In addition, what really counts for the Canadian industry is access to government procurement contracts. We have no intention of including anything in the free trade agreement that would limit access for Canadian businesses to government procurement contracts.

Government contracts have driven most shipbuilding in Canada over the past few years. I therefore do not think that the FTA agreement would have a negative impact on Canada's shipbuilding industry.

Hon. Jean Lapierre: Mr. Chairman, just a brief question to satisfy my own curiosity.

When you spoke about potential exports, you mentioned fish. I was wondering which fish stocks are abundant enough for us to export to Korea.

Mr. Ian Burney: There are many, but...

Hon. Jean Lapierre: It goes without saying that you are not referring to cod.

Mr. Ian Burney: It would be lobster, shrimp and mackerel. Those are the three types that would be most valuable to us in the Korean market.

The Chair: You have six minutes, Mr. Crête.

Mr. Paul Crête: Thank you, Mr. Chairman. Thank you to our witnesses for being here this afternoon.

Regarding the Automotive Consultative Group you provided us with an analysis of the automobile sector; would it be possible to provide us with similar studies on other manufacturing sectors with overviews of how the different Canadian regions are affected?

If a free trade agreement were to be implemented, many sectors, not just the automobile sector, would be affected. Do you have any such studies that you could share with us?

Mr. Ian Burney: Not at the moment. We have focussed our efforts on the automobile sector, as it is the most important one in terms of our relationship with Korea. It is also what is concerning the Canadian industry.

That being said, we are in the process of carrying out an environmental assessment, in the context of which we will be studying the impact that a free trade agreement would have on all industries in Canada.

Mr. Paul Crête: When you say that it is not possible at the moment, do you have a timeframe in mind? I find it somewhat strange that you have carried out a study on the automobile sector, but are unable to say whether an FTA would be advantageous or problematic for Quebec or Canada.

Mr. Ian Burney: Allow me to address this issue. We have undertaken many qualitative studies, but they have not been as detailed as Industry Canada study on the automobile sector.

Mr. Paul Crête: What do you mean by “qualitative”?

[*English*]

Mr. Ian Burney: Prior to entry into the negotiations, we carried out comprehensive consultations with domestic stakeholders here in Canada. We also did extensive analysis and qualitative analysis to determine what the potential would be in an FTA with Korea. We also carried out exploratory discussions with the Korean government.

On the basis of those three processes, we came to the conclusion that there would be a considerable upside for Canada in pursuing the FTA initiative. In my presentation I went through where we saw the primary benefits. They were certainly in agriculture, fish, and forestry, but there were a wide range of manufacturing industries in Canada that also expressed support.

[*Translation*]

Mr. Paul Crête: Let us take the automobile sector by way of example, although what I am going to say applies equally to other sectors. Québec has an automobile parts industry. We are able to evaluate the number of cars that are going to be sold, but not the number that are going to be imported or exported. I want to know whether you have studied the impact that an FTA would have on the car parts market, which is a very integrated market. At the moment, car parts for General Motors are produced all around Québec. These parts are then sold all over the world. How would an FTA affect this type of market? I have used the automobile sector as an example, but I could have chosen any other manufacturing sector. I am referring to the automobile parts market, not car sales as such.

● (1655)

[*English*]

Mr. Marvin Hildebrand (Director, Bilateral Market Access Division, Department of Foreign Affairs and International Trade (International Trade)): Thank you very much.

Mr. Chairman, auto parts has been the subject of some analysis. Professor Van Biesebroeck, in his study, projected that there would be export gains of 8% to 10% for Canada in the event of an FTA with Korea.

With respect to movements the other way, the huge portion of the parts industry that comprises what we call OE, or original equipment, parts already enters Canada duty free. In terms of our tariffs, what that leaves is the after-market parts segment. In that area, our tariffs average about 8%.

As in many other sectors, we anticipate gains in terms of Canada's exports. Certainly there may be an increase in parts from Korea, but as in many cases, the tariffs will be phased out on a gradual basis over a transition period. Again, I would emphasize that in the case of parts and original equipment parts, they're already entering Canada duty free.

[*Translation*]

Mr. Paul Crête: Mr. Burney, I would like to come back to the matter of the qualitative evaluation. Would it be possible for us to have a copy of the documents that you used in your initial negotiations, something that would give us an overview of the situation in Canada? Would it be possible for us to see them?

Mr. Ian Burney: As I said, we are currently preparing an environmental assessment. In the context of this study, we will see...

Mr. Paul Crête: But I am talking about a document that you already have. Do you have something that would provide us with an overview of the situation? Surely you carried out some sort of a general evaluation of the impact the agreement would have on the different sectors of the Canadian economy before you sat down at the negotiating table with the Koreans? Do you have any such document that you could make publicly available?

Mr. Ian Burney: I do not have a document to give you, but I would be happy to discuss what we have learned in the context of our environmental assessment. As I said, we expect to make significant gains in the forestry sector and the agricultural sector, among others.

Mr. Paul Crête: I understand that, but you carried out a specific study on the automobile sector. Are you saying that, regarding the other sectors, you have no document?

Mr. Ian Burney: Yes, exactly. We have not produced a study on the other sectors. We produced a study on the automobile sector and we are in the process of carrying out an environmental assessment, which will cover all of the other sectors. It will be tabled at a later date, once it has been completed.

Mr. Paul Crête: When will that be?

Mr. Ian Burney: Probably before the end of the year. It will be a preliminary environmental assessment. It is mandatory under the government environmental policy.

[*English*]

The Chair: We'll go to Mr. Carrie for six minutes.

Mr. Colin Carrie: Thank you very much, Mr. Chair.

Being the member of Parliament from Oshawa, I've had a lot of lobbying by the CAW in the last little while. I was wondering if you could comment on the Van Biesebroeck study in comparison with the CAW study. I'm sure you've had the chance to look at it.

The CAW is saying we're going to lose 30,000 jobs. Have you had an opportunity to figure out where they came up with their numbers? Have you done a critique? Their study is totally different from yours. I'm wondering, is this just fear-mongering? Where does the credibility issue stand between your study and theirs? It seems to be quite vocal.

Mr. Ian Burney: Thank you very much. Yes, we would note that the conclusions of the CAW study were diametrically opposed not only to our study but to the study that was carried out by Professor Van Biesebroeck.

I will say that our economists have had a chance to take a look at it and have identified quite a large number of methodological weaknesses with the study that was carried out by the CAW. I'll just mention a few.

The CAW assessment excluded agriculture. It's the sector where we would expect to see some of the greatest gains in an FTA, so obviously this skews the results.

The CAW assessment assumes, in effect, that Canada isn't trading with anybody else; that every dollar in increased imports from Korea necessarily comes at the expense of Canadian production. Well, we know that isn't so. In fact, in the automobile sector in particular, where three-quarters of the domestic market is from imports, one would expect that incremental imports from Korea would largely displace other imports, not domestic production. But that whole aspect was not covered in the CAW study.

Getting to the very high job loss figures they got to, which captured all the headlines, was not based on an analysis of Canada-Korea trade at all; it was basically an extrapolation of the total change in our trade with all of the countries with whom we've had FTAs since the beginning of those FTAs, and that number was grafted on to our current trade with Korea. This assumes there are no factors involving the increase of trade other than the FTA—growth in the economy, currency changes, terms of trade, technological improvements, and so forth.

So, for example, our imports from Chile, with whom we have an FTA, are up significantly, but more than half of that is because of the rise in the price of copper. Well, in their analysis, that immediately gets grafted on to a presumed increase in imports from Korea.

I could go on. The whole premise, though, is based on an essentially mercantilist view of the world, where exports are good and imports are bad, and that's not a perspective I think we would share. What most economists would say is that the economic efficiency gains that should arise from an FTA are the result of increased exports and imports.

● (1700)

Mr. Colin Carrie: Would you be able to provide us with that analysis of the difference between the two studies, please?

Mr. Ian Burney: There's not a written document that exists; I'm giving you my perspectives. I can certainly take note of your questions and see whether we can put some kind of written piece of paper together.

Mr. Colin Carrie: Well, it's very important, because the whole idea of this study is to take a look at the Canadian manufacturing sector to see the challenges that are facing it right now and what government's role is there. I know it would help us out if you had some analysis there.

Did your department carry out public consultations with the business community to determine whether there was any interest in pursuing an FTA with Korea? And what were the results there? Did Korea come to us, or did we go to them, or how did that come about?

Mr. Ian Burney: Actually, Korea was initially the demander. For the six to eight months prior to the launch of negotiations in July 2005 we carried out comprehensive consultations with Canadian stakeholders, as I mentioned. We published a *Gazette* notice. The minister wrote to hundreds and hundreds of stakeholders across the country. We had consultations with the provinces.

We had one-on-one consultations with the key sectors involved in Canada-Korea trade, and we had a very high response to our request for written submissions. I think we received something in the neighbourhood of 100 written submissions.

There was overwhelming support from across the country for pursuing an FTA with Korea, with the two notable exceptions of the automotive and shipbuilding sectors. From every other quarter of the country there was very strong support.

Agriculture and fish and forestry I've mentioned a few times. They were particularly supportive, but so were a wide range of manufacturing sectors and the services sectors of the economy. The financial services sector I think sees a considerable amount of upside in this agreement, and there are opportunities in environmental and high-tech services as well. Investors see, in the prospect of an FTA, comprehensive investment protection, which they see to be of benefit.

So there was extensive consultation. The conclusions were overwhelmingly positive, except in the two sectors I noted.

Mr. Colin Carrie: How many different countries are we negotiating with for free trade agreements? I've spoken to the Japanese auto manufacturers, for example, and they commented that they've spent billions of dollars building plants here in Canada. The Koreans don't have one plant in Canada. If this went through, they'd be allowed to ship their vehicles into this country tariff free, but the Japanese, on the other hand, would still have a 6.1% tariff.

Are we negotiating a number of free trade agreements right now? Korea gets all the headlines, but what is the thinking on the other ones?

Mr. Ian Burney: At the moment we have four live negotiations. We have the Korea initiative we've been talking about, and we have three negotiations, which have been ongoing for many, many years, that we haven't been able to conclude. We have what we call the Central America four: Guatemala, Honduras, El Salvador, and Nicaragua; EFTA, the European Free Trade Association; and Singapore. Those are the three others beyond Korea that we're actively negotiating now, but there are many other commitments in the pipeline, commitments that have been made in years past to pursue negotiations, primarily in this hemisphere. But those are the four that are ongoing now.

Pursuant to an economic framework agreement concluded a year ago, we've been pursuing a joint study with Japan, which has been looking at modelling and other aspects of trade globalization between Canada and Japan.

From our perspective, we would very much like to take a closer look at the possibility of an FTA with Japan, but I would only note that Japan has some fairly serious sensitivities in agriculture, fish, and forestry that make the prospect of an FTA with Canada problematic.

● (1705)

The Chair: Thank you, Mr. Carrie.

We'll go to Mr. Angus.

Mr. Charlie Angus: I'm seeing a real disconnect between the impression we're getting of the positive benefits of this, but I'm not hearing anything about what it's going to do to our domestic market, because with our two big ones, you can't open the business press without seeing speculation about where they're going and their shaky legs. It's so bad, even this cheap Scotsman had to go out and buy another Pontiac to make sure I was keeping our domestic industry nice and stable.

I'd like to know what you've done in terms of studying the impacts on our domestic industry right now if we open our trade with Korea.

Mr. Ian Burney: Again, in the pre-launch period we did carry out comprehensive consultations with stakeholders. We had widespread support from everyone except the automotive and shipbuilding sectors. That's why we spent so much time taking a hard look at the auto sector in particular, which accounts for such a large part of our trade.

The studies go into extensive detail as to why they don't anticipate a significant negative impact in Canada because of trade liberalization with Korea. I went through those reasons. It's a low tariff; 84% of our production is to the U.S., which won't be affected. Of the production in Canada, at least 30% doesn't face any direct competition.

Of the three Korean manufacturers, two of them, Hyundai and Kia, are manufacturing or will be manufacturing in North America, and the third, Daewoo, is owned by GM.

When you look at all that, the conclusion we come to is that the incremental impact on Canadian production from removing the 6.1% tariff that remains will be minimal. Against that you have all these other sectors that say they have enormous opportunities in the Korean market because they're facing high tariffs. So there is the prospect of considerable gains in all of those sectors versus the best analysis we can bring together telling us there won't be much of a downside in the auto sector.

Mr. Charlie Angus: I'd like to go to that, because it's pretty clear that you think the CAW study is bunk. Yet we're hearing about a study of 1,000 units per year being lost? That's a pretty paltry, anemic penetration of our market. I'd have to question why we'd even be pursuing this if the best they're going to do is impact us that little. I find it very hard to believe that number is as low as it is.

Mr. Ian Burney: If I could just clarify, the 1,000 figure is the estimate of the loss of production in Canada. Studies estimate there will be an increase in imports from Korea, but the studies conclude those imports will largely displace other imports, not so much domestic production.

Mr. Charlie Angus: Do you have a strategy in place to work with our domestic automakers? Clearly they've come up with some very strong objections to this. We've heard those objections. They're making sure every member of Parliament is hearing them. Yet you're saying we're not going to have any impact, and our other sectors—for example, agriculture—are going to do wonders from this.

What strategy is in place to ensure you're going to work with our domestic sector?

Mr. Ian Burney: I'm not sure I would characterize the position of the Canadian auto industry as being opposed to this initiative. Even this morning, at a meeting with the minister, they made it clear that they were not opposed to this initiative. They just have serious concerns about our ability to penetrate what they perceive to be non-tariff measures in the Korean market. So we're on exactly the same wavelength as the Canadian industry on this. We have exactly the same objective. We want to remove not just the tariff measures but the non-tariff measures in the Korean market.

Our views on how best to achieve that have been different from those of industry, but there's no doubt that we're on the same page in terms of the objective, and we're working with them very closely. We meet with them on a regular basis, at all levels, to explore different ideas. What's really important for us is to have the industry come forward and give us chapter and verse—which they're doing—of the problems they're encountering so that we can translate the problems into obligations in the FTA and hold the Koreans accountable.

● (1710)

Mr. Charlie Angus: You've mentioned the two studies. Have you done internal studies other than that to confirm the conclusions that were drawn by these studies?

Mr. Ian Burney: Those are the only two studies in the auto sector, and those are the only two written studies we have at the moment. We did a lot of qualitative analysis, as I said in response to an earlier question, in the run-up to the decision to launch the negotiations. We have consultations with the stakeholders; we have government-to-government talks; and we do assessments looking at the tariff structures in the two countries to try to determine the likely impacts in each sector. These inform the analysis that we provided to the government of the day, which made a decision in cabinet to proceed.

There isn't a document per se that could be made public, but there is, as I said in response to an earlier question, some updated economic modelling that's been done in the context of the initial environmental assessment that we're doing.

Mr. Charlie Angus: So there is some modelling, but there are no studies.

Mr. Ian Burney: There is no written document.

Mr. Charlie Angus: Thank you.

The Chair: Thank you, Mr. Angus.

We'll go back to Mr. Lapierre.

[*Translation*]

Hon. Jean Lapierre: I will only ask one or two questions so that others have a chance to speak.

You said that you held consultations with the provinces. Could you tell us what Ontario and Québec's positions were?

Mr. Ian Burney: All provinces and territories, including Québec and Ontario, supported the decision to initiate negotiations. Recently, because of its concerns about the automobile sector, the Ontario government have adopted a slightly more nuanced position. We received a letter reflecting this shift from the new Ontarian minister.

Hon. Jean Lapierre: You said that, at 6.1%, the Canadian tariff is really very low. Have you any idea what dealers' profit margins would be?

I have been told that, in the automobile sector, a 6.1% tariff is actually highly advantageous. Have you heard that view being expressed?

Mr. Ian Burney: Yes. People involved in the Canadian industry believe that maintaining this rate is important. Given that other industry costs, such as, for example, the exchange rate and energy costs, fluctuate, it is felt that the current tariff is manageable. While it is not negligeable, it cannot be said to be too high.

Hon. Jean Lapierre: Based on studies that you have consulted—I know that you do not have a document before you, but that you have all of the data in mind—can you tell us what the regional breakdown is? In the case of Québec, for example, is this agreement a good thing or a bad thing?

Mr. Ian Burney: We think that the agreement is a good thing for all regions and all provinces. Indeed, all of this country's industries, except for the automobile and shipbuilding sectors, has said that they support this initiative, and do not take any issue with it. For reasons already explained, we believe that the two industries I just mentioned will not bear a negative impact. We believe that the repercussions will be positive in all regions of the country.

Hon. Jean Lapierre: Thank you.

[*English*]

The Chair: I will go to Mr. Van Kesteren for five minutes.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you, gentlemen, for coming here today.

Mr. Carrie asked a question about the 30,000 jobs lost, and I think you answered that sufficiently. I want to take it in another direction. I want to ask simply this. Is there a possibility that if we reach an agreement with the Koreans we could see plant openings here in Canada? It's incredible how many Japanese have set up shop here, and yet the Koreans have gone to, as you said, Alabama. I've been in the plant in Alabama. It's a fabulous plant. They've also set a plan for Kia.

Is there a possibility that this would encourage them to set up shop here in Canada? Is that something we've looked at?

● (1715)

Mr. Ian Burney: I'm not sure that the direct impact of an FTA would be necessarily to encourage the investment, other than perhaps through the investment chapter, which would provide for greater investment protections in both directions. So to the extent that that provides a higher comfort level to companies seeking to invest either way, it could have an effect in terms of encouraging investment.

I'm not currently aware of any plans on the part of the Korean manufacturers to invest in Canada. Hyundai, of course, did have an experience in Canada in the 1990s. I think their plans involve locating in the United States for the time being. I'm not aware of any current plans to invest—

Mr. Dave Van Kesteren: I know they built their SUVs there and their mid-size car, but they have a lot of labour unrest in Korea. Is there a possibility that they're looking at Canada and seeing this as a stable market in which they can set up shop? You really can't say that this type of a deal would lead to the possibility of them looking at us favourably?

Mr. Ian Burney: I certainly can say that one of our objectives in having an FTA is to encourage two-way investment.

Mr. Dave Van Kesteren: So there is that possibility.

Mr. Ian Burney: That is absolutely one of our objectives. I'm just not in the minds of the corporate players who make decisions about where they invest.

Mr. Dave Van Kesteren: I understand. But this would make it easier for them.

Mr. Ian Burney: I think yes, on balance.

Mr. Dave Van Kesteren: We heard amazing statistics here. I didn't know there were 44 million South Koreans. Where's the statistic by the Prime Minister of Australia? I think he said 40 million new people enter the middle class in Asia every year. That's an incredible statistic.

First of all, do you know how many people are newly entering the middle class in Korea, and will this type of deal help us to tap into that, the possibilities?

Mr. Ian Burney: There's no question that Korea is a rapidly developing country. In fact, it is by most measures a fully developed country already. So we're talking about 40 million consumers, who present a tremendous growth opportunity for Canada. But even beyond the Korean market—and I think this is very important—the whole region is integrating at a pace we've never before seen: Korea, Japan, China, the whole northeast Asia region. To the extent that we can give Canadian companies privileged access into the Korean market, that can give them a springboard to pursue opportunities throughout the whole northeast Asian region.

Korean companies, particularly the big chaebols, are all over those markets. They have the contacts, the connections, the investment tie-ups. To the extent that Canadian companies take advantage of an FTA and establish partners in Korea, that could pay dividends throughout the region. I think that's potentially one of the more important aspects of having this FTA.

Mr. Dave Van Kesteren: We saw with Xstrata that there was a net benefit test that we have to make as a country before we allow that type of transaction.

Is there a litmus test, or some type of test? Obviously there is, but is there something more? Before we sign a deal with Korea, what kind of procedures do you go through? You touched on some. I just need a little bit more assurance, I think, in that area.

Mr. Ian Burney: There are several stages to the process. In the pre-launch phase, we consult with the stakeholders and we talk with the other government through an exploratory process to find out two things: where is Canadian industry on the idea of having an FTA, and what are the possibilities of negotiating a state-of-the-art agreement with the other country? If we are reasonably satisfied from those two processes that there's a basis for proceeding, we would recommend and the government would decide whether or not to launch negotiations. But that's the first stage, and that's where we are now in the negotiations. Now we have to see whether we can actually reach an agreement with Korea that meets our needs as well as theirs.

If we as negotiators, in following the mandate we've been given by government, are satisfied that we've reached an agreement that's worth bringing back, we'll do so, and then the whole political process will be engaged in terms of deciding whether or not to proceed.

The government would first have to make a decision to sign the agreement, and then once the agreement was signed, it would require implementing legislation. So all members of Parliament would obviously have a vote in deciding whether or not the agreement should be ratified.

Mr. Dave Van Kesteren: I have one quick question. Maybe you've answered this too, but we're talking about the deal itself and the desire for us to move in that direction. What about the Koreans? Are the Koreans as excited about this as we are, or at the same stage of excitement, let's say?

Mr. Ian Burney: Another reason this is so important for us is that the Koreans historically have not been big players in the FTA game. Until a couple of years ago, they had none. In the last two years, they have gone through a sea change, and they are now one of the most active players in terms of bilateral negotiations.

I think I mentioned in my remarks that they've concluded negotiations with fifteen countries already. They're negotiating, as we know, with the United States. They have a process that has been under way for a while with Japan. They're courting the European Union. So they are basically either in negotiations or they have concluded or are contemplating negotiations with all our primary trading partners. That's why it's so important. If all those countries conclude FTAs and we don't, we'll be looking at having a disadvantaged access into the Korean market, never mind a preferential access.

● (1720)

The Chair: Thank you, Mr. Van Kesteren.

We'll go to Mr. Vincent.

[*Translation*]

Mr. Robert Vincent: Thank you.

I want to take you into another area.

In 2002, Canada has abolished antidumping duties on Chinese imports, imports that are manufactured with less expensive labour. The massive influx of Chinese products significantly harms our industries, particularly the sector that produces affordable, average-grade bicycles. The affordable bicycle sector received a ruling from the Canadian International Trade Tribunal in its favour. The tribunal recommended temporary safeguard measures to help the industry adapt.

First and foremost, I would like to know which criteria were used to consider China as a market economy. We know that the United States and the European Union, among others, do not consider China to be a market economy.

In fact, in all of the recent cases of dumping in Canada, the agency determines that the Chinese government was not fixing domestic prices within the industry concerned. China, was therefore considered as a market economy in each one of these cases. In that particular situation, Canada applied only one single criterion, whereas the European Union and the United States took into account exchange rates, trade barriers, foreign investment, production control, price-fixing control and resource allocation. Why do those countries apply a wide array of criteria whereas we have a single one?

[*English*]

Mr. Ian Burney: The subject of our briefing today is the Canada-Korea FTA negotiations, so I didn't come prepared to address the issue of safeguard actions and how the government deals with safeguard actions involving imports from China. But as I understand the process, it would essentially be up to the applicants who are seeking the measures to make a case for whether or not the safeguard measures should be imposed, as they did to the CITT.

The CITT looks at the question of injury uniquely, and then the government has to make a decision on what the overall interests of the country will be in terms of whether or not to accept the recommendation from the CITT.

I think you mentioned a case involving bicycles. My recollection is that the decision of the government was that it would not be in the overall interest of the economy of the country to accept the recommendation. But it's a bifurcated process. The CITT looks only at the narrow question of whether the domestic manufacturer has been injured or is at risk of being injured by imports. Then it falls to the government to make the overall judgment as to whether or not imposing remedial measures would be beneficial to the Canadian economy.

[*Translation*]

Mr. Robert Vincent: I would like a real answer to the following question. I believe that decisions are made within your department. I would like to know why countries apply so many criteria and conditions to other exporting countries, whereas Canada applies only one. We are letting things slide. If we believe that there is no impact on the domestic market, and the country concerned does not fix prices within its own domestic market, the country is automatically considered a market economy.

How can we allow ourselves to be so permissive whereas other countries are applying countless criteria? Why are we allowing this type of situation to go on? You are being invaded by foreign markets, particularly the bicycle market.

[*English*]

The Chair: Just to clarify, perhaps we can invite the witnesses back, but we did invite them specifically on the Canada-Korea free trade agreement.

Mr. Burney, feel free to answer, but we can also invite witnesses back if we want to discuss International Trade's reaction to these other cases.

[*Translation*]

Mr. Robert Vincent: Mr. Chair, I believe that it would be interesting to have those people appear again. To my mind, this issue also affects us. We could have the opportunity to ask relevant questions once again,such as the questions I have already asked, in order to receive answers.

We could also address the issues mentioned by Mr. Crête. There was talk of trade with Korea as well for fish, lobster and shrimp. We were curious to know what the impact of those markets have on other products.

On the one hand, we are negotiating, but on the other hand, we do not know what we are negotiating. Therefore, we would like to know what is going on in the fisheries industry in Canada and in Québec and if those industries are able to export domestic products. I have the sense that we do not know what was negotiated. Overall, their appearance would allow us to ask questions on Korea, other products, the bicycle industry, and on the criteria that are applied when qualifying a country as a market economy.

● (1725)

[*English*]

Mr. Ian Burney: To respond with respect to trade remedy law, that is the responsibility of the Minister of Finance in Canada, so if follow-up is required in terms of how trade remedy laws are applied in Canada, I would suggest that the lead contact be with the Department of Finance.

With respect to the impact of the Korean FTA on the fisheries sector, this is an area of great opportunity for Canada, and there is absolutely no downside. This is a sensitivity in Korea, not Canada, and there is overwhelming support from the Canadian seafood sector in Quebec and Atlantic Canada to pursue this FTA because it's a heavily protected sector of the Korean economy and it's already an important export for us. The growth potential is considered by them to be substantial.

I'd be happy to provide more detail in some follow-up context, but I think the story in the fish sector is all positive for Canada.

The Chair: Thank you.

We have one more member who wants to ask questions, and I have a few at the end. Then we have a motion from Monsieur Crête. We have about four minutes here.

Monsieur Arthur is next.

Mr. André Arthur: *Merci, monsieur le président.*

Mr. Burney, please allow me a question that is kind of hypothetical and at the grassroots level. Let us assume that your best friend is a Honda or a Ford dealer in Canada and tonight you have to explain to him what is going to happen to him when you have succeeded in your enterprise of negotiating an FTA with the Koreans. How will you put it to him?

He is not shipping lobster or shrimp on the side. He is only a car dealer.

Mr. Ian Burney: It's important to keep in mind that we are midway through a negotiation. It's hypothetical at this stage to speculate about what the outcome will be.

When a negotiation is concluded, the government will have to make a decision about whether it's in the interests of the country to proceed. If the government decides to proceed, it will go to Parliament for a vote. That's the political process.

It will not be a bureaucrat in my shoes making a decision about whether a free trade agreement should be adopted in Canada. I would have no hesitation in sharing my personal views on the merits of the agreement with any colleague in any sector at any time, but ultimately it's a political responsibility as to whether or not to accept an agreement of that nature.

Mr. André Arthur: You told us that imports will probably displace other imports, so Hyundai will sell more cars and Toyota or Honda will sell fewer. How fair is it to the Honda people who have invested in Canada?

Mr. Ian Burney: The other aspect, though, of free trade is that through the reduced tariffs, you actually cause greater competition and lower prices in the market, leading to an increase in demand, so there's also a positive income effect that results in greater purchases of vehicles overall. Dealers who are selling more than one brand may actually see a lot of benefit from it.

Mr. André Arthur: Thank you.

The Chair: Thank you, Mr. Arthur.

I have a few wrap-up questions. I want to preface them by saying I'm a big supporter of free trade agreements philosophically and intellectually.

I do have some concerns about this agreement; they are mainly related to the automotive sector. In what range would the imports from Korea to Canada be?

Mr. Ian Burney: Imports from Korea into Canada at the moment are around $5 billion.

The Chair: What are the total exports to Korea from Canada?

• (1730)

Mr. Ian Burney: That is $2.8 billion.

The Chair: Is it fair to say that the imports from Korea have been increasing over the past number of years, while the exports to Korea have been decreasing over the last number of years?

Mr. Ian Burney: No. On the contrary, our exports were up significantly more last year, and Korean imports to Canada were either flat or down.

The Chair: In terms of the goods that you identified—agrifood, fisheries, coal, forestry, wood products, metals, chemicals, aerospace, auto parts, financial services, high tech—one concern is that there are a lot of primary products on that list. Again, the perennial concern in Canada is that we're relying more on primary products and as a result putting in danger some of our manufacturing sector, which is obviously the study of this committee.

In terms of the access for the goods above, you said you have qualitative studies. Is there something you can give us that would assure committee members we will be making some real gains, especially in areas like aerospace, auto parts, financial services, and high tech? The reason I ask is that a lot of people in those sectors have at least anecdotally expressed to me concern about this agreement.

Is there something you can provide to us that says we will be making some real gains if we sign an FTA with Korea?

Mr. Ian Burney: There are several ways to answer that. One is that all the stakeholders who wrote to us were positive, except for those from the two sectors we discussed. So we have supportive messages from stakeholders in all of those sectors—aerospace and chemicals and—

The Chair: Are those public documents? Can we have access to them?

Mr. Ian Burney: No, they're covered by privacy considerations. When people are responding to a government appeal for input, they do it under cover of privacy.

If you look at the tariff structure, you'll see that Korean tariffs average 13%. Canada's average is less than 4%. If you eliminate those, it stands to reason that there's going to be more benefit to our side than theirs.

I can give you details about the tariff levels. Korea imposes a 5% duty on flight simulators, 3% on engines, 8% on industrial machinery. Canadian tariffs, especially in those areas, tend to be either zero or very close to it.

The Chair: Especially in the automotive sector, there are concerns about the non-tariff barriers, the regulations and such. If we sign an FTA with Korea, and Korea puts in force a regulation or a non-tariff barrier, how will we be able to react fast enough to make sure that the barrier's not in place for a long time?

Mr. Ian Burney: That's exactly the dialogue we're having with the auto industry. We're looking for them to identify the specific problems they have. If there's a problem with a measure that exists now, we'll try to write an obligation directly into the FTA itself.

Perhaps more important, we're also trying to come up with some procedures for solving the regulatory problem. We want to make sure that Canadian and Korean companies have equal access to the Korean regulatory process.

Right now, by the time Canadian firms find out about a measure, it's too late. So we're trying to open up the entire regulatory process. How is it enforceable? Ultimately, through dispute settlement provisions. To the extent that you can write obligations into the agreement, you can make it subject to dispute settlement. Ultimately, you can enforce it in that way. If measures are not complied with, you can withdraw measures of equivalent commercial effect.

The Chair: Over the past few days, representatives of the automotive sector have met with many members of this committee. They have expressed a concern about being consulted by the government. They certainly expressed it to me. I would like to relay this to you, because we'd like to encourage as much consultation as possible.

Tell me, are we negotiating in conjunction with the United States as a North American market to Korea, or are we still on a dual-track approach, negotiating separately from the U.S.?

• (1735)

Mr. Ian Burney: We are not negotiating in conjunction. We are negotiating separate, stand-alone, bilateral FTAs. That said, we are in communication with our American counterparts, and we have a pretty good sense of what's going on in each other's negotiations. Obviously, given the nature of our industries, including the auto sector, we'll take a keen interest in what's going on at their table and vice versa.

The Chair: I appreciate you all coming in today on such short notice. I thank you for your questions. If there's anything further you'd like members of the committee to see in this area, or if there is something further, we may invite members, whether it's you or someone else from Trade, back to discuss other issues. But thank you very much for coming to committee.

Mr. Crête has a motion to present and we need seven members. So we all of us need to stay to hear the motion.

[*Translation*]

Mr. Paul Crête: There were previous consultations.

Mr. Robert Vincent: Mr. Chair, I seek unanimous consent from the committee to invite the National Research Council of Canada to hold an annual briefing session on Parliament Hill as soon as possible in order to inform parliamentarians of the services the council provides.

[*English*]

The Chair: I am told that we have a 48-hour notice for motions, and I'm advised by the clerk that I need unanimous consent to move the motion without 48 hours' notice. Do I have consent?

Mr. Colin Carrie: Could I have a friendly amendment that we don't say “annual” at this stage of the game? We could just invite them to come for an information session. Would that be okay?

[*Translation*]

Mr. Paul Crête: The word “annual” must be withdrawn.

[*English*]

Mr. André Arthur: It would not be an annual obligation; it would be one shot.

Mr. Paul Crête: We're not creating a bureaucracy.

Mr. Colin Carrie: Well, that's what I'm worried about. You said we don't want another bureaucracy here, but to have them come for an information session is no problem. The word “annual” kind of gave me—

The Chair: So is the friendly amendment agreed to?

(Amendment agreed to)

The Chair: Do I have unanimous consent ?

Mr. Colin Carrie: Could you read it again, please?

The Chair: That the committee—

[*Translation*]

Mr. Colin Carrie: The word “annual” must be taken out.

Mr. Robert Vincent: Mr. Chair, I seek unanimous consent to adopt the following motion:

That the Committee invite the National Research Council of Canada to hold, as soon as possible, an information session on Parliament Hill to inform parliamentarians of the services they provide.

[*English*]

The Chair: Do we have consent to move and adopt the motion?

(Motion agreed to)

The Chair: All right, it is unanimous.

Thank you, members. Have a good break week.

The meeting is adjourned.

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