



House of Commons
CANADA

Standing Committee on International Trade

CIIT • NUMBER 008 • 2nd SESSION • 39th PARLIAMENT

EVIDENCE

Tuesday, December 11, 2007

Chair

Mr. Lee Richardson

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

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

Standing Committee on International Trade

Tuesday, December 11, 2007

● (1535)

[English]

The Chair (Mr. Lee Richardson (Calgary Centre, CPC)): I call the meeting to order.

We have another item on the agenda that maybe we can clear off, or at least give a few minutes to, while we're waiting for technical assistance. Why don't we try that, if the committee is in agreement?

I might also add while we're waiting to begin, with the consent of the committee, that I think it would be my intention to table the report that you passed last week. We'll table it tomorrow. That would be the report on the previous committee's travels.

Before we get to witnesses, we do have some committee business, and that is a notice of motion from Mr. Pallister that has been given notice. I see that we have Mr. Epp sitting in. Did you want to proceed with that?

Sorry, Mr. Julian.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Mr. Chair, I don't believe the motion has been moved by the proposer. If Mr. Pallister is not here, we would have to move on to our witnesses.

The Chair: I'm happy to move on to the witnesses, but apparently we don't have the witnesses quite yet. In the meantime, we were just trying fill in. We don't have any sound.

Excuse me just a minute, while I consult with the clerk.

● _____ (Pause) _____
●

The Chair: We're going to reconvene. The situation apparently is that we're have technical difficulties at the other end of this call. We may be able to get Mr. Stanford by video; I think they're going to try to do it by teleconferencing. We may have simultaneous video, or we may just get him by conference. I'm not sure how that's going to work.

If there isn't any objection, we could still go ahead. Are we ready to go with that?

They're not quite ready on the teleconferencing, so we are going to reconvene for the second part and that is committee business, notices of motion. Mr. Epp is now duly signed in, replacing Mr. Pallister.

Essentially, to answer your question, the whip tells me that he is acting for Mr. Pallister and that's just fine. Mr. Julian, I'm responding to your question about whether or not an alternate member who's

representing another member can move a motion on his behalf, and the answer is yes.

Mr. Epp.

Mr. Ken Epp (Edmonton—Sherwood Park, CPC): Thank you very much, Mr. Chair. It's a delight and an honour to be here in Mr. Pallister's place. I assure you all, all of the members of this committee, that I could be just as tall as Mr. Pallister if I just cinched my girdle up real tight. It's got to go somewhere, right?

This is the proposed motion that I'm presenting on his behalf. It has to do with priority of legislation and is of course designed to expedite the work of the House, which we're all very interested in.

This is a motion that the consideration and examination of any bill, government or private member's bill, that is referred to the Standing Committee on International Trade take precedence over any study or non-legislative examination. In such circumstances, the non-legislative study shall be deferred until such time as the bill is reported back to the House.

Do I speak in favour of that, Mr. Chair?

● (1540)

The Chair: I don't know if there's going to be requirement for debate. If you want to speak to it, go ahead. You don't need a seconder, so go ahead and introduce it.

Mr. Ken Epp: It's just a routine motion. As many of you know, I substitute in a lot of committees, and this is one of the routine motions at the beginning of each committee formation that is routinely done in other committees. I would strongly recommend that this be done here as well.

As I said in my preamble, in order to expedite the work of the House—which we're all interested in—this of course would also mean that when private members' bills, many of which come from the opposition side as well as from government members, are dealt with, they are dealt with in an expeditious manner and dealt with by the committee instead of by default.

Thank you.

The Chair: I think that's clear.

We have a motion from Mr. Pallister that bills referred to the committee essentially take precedence over other business. Is there some debate?

Mr. Julian.

Mr. Peter Julian: Mr. Chair, I don't think we need to spend a lot of time discussing this. For members of the opposition, obviously, it would make no sense at all to essentially hand over the direction of committee business and the agenda to the government, which is essentially what this does.

As a committee, we've worked together. I've been on the international trade committee now for three and a half years, and essentially we establish agendas by consensus. We work with the chair and the agenda committee.

To have the three opposition parties hand over the agenda priorities to the government would make no sense at all in a minority Parliament. Canadians chose a minority Parliament. The result of the committee composition is the choice Canadians made, so it makes no sense at all for the opposition to hand over the agenda-setting to the Conservatives. This should be done with the approval and consensus of as many members and parties around the table as possible.

So I'm voting against this motion.

The Chair: Is there any further debate? We have a list. Thank you very much.

Monsieur Cardin.

[Translation]

Mr. Serge Cardin (Sherbrooke, BQ): Thank you, Mr. Chairman.

I would conclude with what's just been said, but I would add that I prefer that we be free to determine our own actions.

We're sufficiently responsible to judge the speed with which we must consider a bill when it is tabled here in committee. We're capable of doing that. Depending on the stage of examination of an issue, it may be preferable to finish what we've started, if a bill is not that urgent.

I would prefer to see the committee remain master of its decisions and deal with each issue individually. When a bill is presented before us, we'll see where we are in our committee business and according to the urgency of the matter, we will decide if we give it precedence or if we defer it a little to finish what we've already started.

I would be open to any suggestion when the time comes to make a decision.

[English]

The Chair: Thank you.

Mr. Allison.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you, Mr. Chair.

I'm amazed at the overwhelming sense of fairness and consistency the NDP picked in this particular issue. Depending on what committee it's at—I know that certainly for HR it's always been the case that we deal with the business of government or private members' bills; that takes precedence all the time. When Bill C-257 came forward, even though we were working on studies, it didn't matter; it was very quick, and easy to push aside what we were doing. Certainly, in the name of fairness and consistency across all committees, most committees handle it this way already.

I would also take into consideration my colleague's remarks. Obviously if we're working on a report there should be some type of mechanism whereby we talk about what priorities to take, but certainly, as is the case in every other committee, bills always take precedence.

Once again, this is a routine motion that happens in every committee.

● (1545)

The Chair: I'm going to have to wrap it up there, in fairness to our witnesses. I do apologize to the witnesses, who are in the room, for this technical delay. I appreciate your patience. It sounds as if we now have some context. I think we'll just defer this until 5:15 to see if we can deal with it then.

Hon. Navdeep Bains (Mississauga—Brampton South, Lib.): Why don't we just call the vote?

Mr. Peter Julian: I second that, Mr. Chair.

Hon. Navdeep Bains: I feel the discussion's taken place, or maybe that's presumptuous of me.

Mr. Ken Epp: I'd really like to respond once more.

The Chair: Yes, I think they want to respond further, so that's debate for now. I would like to, for the sake of our witnesses, carry on with the meeting, and that is the consideration of the study of the proposed Canada-Korea free trade agreement.

We have as witnesses today Gerald Fedchun from the Automotive Parts Manufacturers' Association. We also have Mark Nantais from the Canadian Vehicle Manufacturers' Association. I hope we have, via teleconferencing if not by videoconferencing, Jim Stanford, the chief economist from the Canadian Auto Workers Union.

I wonder if we might have a test. Mr. Stanford, are you hearing this?

Dr. Jim Stanford (Chief Economist, Canadian Auto Workers Union): I am hearing it just fine, thank you. I apologize for the delays here, technically.

The Chair: Well, I'm sure it's not your fault. We apologize for the delay to everyone concerned. You are coming through very loud and clear, I might say, so we can proceed.

I think we will begin—now that we have the sound up, and if it's all right with the rest of the witnesses—with Mr. Stanford for a brief opening statement. I would ask each of you, if you wouldn't mind, to give a brief opening statement, at which time we'll proceed to questions in the usual format. We do have video here. We may get simultaneous video and the conference call through the wonders of modern science.

Mr. Stanford, could I ask you to proceed.

Dr. Jim Stanford: Certainly, sir. Thank you, Mr. Chair.

When you say brief, are you thinking five minutes? I just want make sure I know how brief.

The Chair: Sure, five to ten minutes is fine. Closer to five would be more acceptable. That just gives you more time to answer questions.

Dr. Jim Stanford: I'll give that a go. Thank you very much, and again I apologize. My flights were cancelled because of the ice storm here. I would very much prefer to be there in person today.

I think the CAW's organization is well known. We're the largest private sector trade union in Canada. We represent about 265,000 members in a wide range of different sectors, including the auto industry, but other sectors as well.

Our criticisms of the proposed free trade agreement, I think, are well known as well. We have argued that the current state of trade between Canada and Korea is very unbalanced, a one-way pattern of trade, and that will only be exaggerated by a free trade agreement. The deficit is likely to get larger, especially in the higher-value manufactured goods, which we tend to buy from Korea. And we have predicted that will impose serious damage on a range of high-value-added manufacturing industries in Canada. And it's not just the auto industry. I know we have the auto industry representatives here today, but it's important to recognize that a wide range of industrial sectors will be hit by this, including computers, electronics, machinery, metal products, plastic and rubber products. These are likely the most at risk.

We have prepared and distributed to the committee a study that estimates that if the experience of free trade with Korea matches the average experience that Canada has had with the other five free trade partners that we have today—that being the United States, Mexico, Israel, Chile, and Costa Rica—we'll likely be looking at about 33,000 net job losses in Canada.

More recently, we have disaggregated those job loss estimates across the different regions of Canada. Ontario and Quebec, not surprisingly, lose the most jobs. Over 17,000 jobs were lost in Ontario and over 8,000 were lost in Quebec. But the interesting thing is that in every region of Canada the net employment impact is negative; that is, nowhere are the modest jobs created in agriculture and mining because of the free trade agreement enough to offset the larger job losses in manufacturing.

For today's discussion, I'd like to focus on presenting our views on a couple of more recent issues related to this free trade agreement. First, the Department of Foreign Affairs itself has finally released an economic study with an assessment of the economy-wide effects of the proposed free trade agreement. Secondly, DFAIT has also invited reaction to its draft environmental assessment of the FTA. I think both of these documents have very important implications regarding the government's approach to negotiations with Korea that I'd like to bring to your attention.

I'll start with the economic study first. Initially, I have to make a point. It's surprising that it's only now, after some 14 rounds of negotiations with the Koreans and a clearer, concerted push by the government to reach agreement, that the government has actually performed an economy-wide study of the impacts of the free trade agreement. That strikes me very much like the tail wagging the dog. This economic study was prepared as part of the environmental assessment process. I think we should have had a very careful economic study of the economy-wide impacts of the FTA before we

even entered negotiations with Korea to make sure that we had a chance to generate net benefits that were worth the risks and costs.

I do want to talk, just briefly, about the methodology of the government's study. It belongs to a type of economic model called the computable general equilibrium model, a very controversial approach in economics. Some of the assumptions that are built into the model include the assumption of sole employment; the assumption that workers are paid the same wage in every industry; the assumption that the whole country consists of one representative household that shares all the income from different industries equally, so there's no income distribution problem; the assumption that Canadians are inherently loyal to domestic-made varieties of different products; the assumption that Korean consumers will behave as aggressively in response to tariff reduction as Canadian consumers do; and other economic assumptions that are very unrealistic.

We've described and critiqued those assumptions in detail in a letter to Mr. Hildebrand, the chief goods negotiator with the Department of Foreign Affairs, which we'd be happy to share with anyone who wants to see the details.

There are some particularly outrageous assumptions that the modellers made in regard to the auto industry. In particular is one crucial but very unfounded assumption. The modellers have assumed that 65% of Hyundai and Kia's automotive production that is destined for Canadian markets will migrate, within the period covered by the free trade agreement, to assembly plants that the company is building in the United States. And the implications of that are, since Hyundai and Kia, in theory, are going to be supplying Canada from the U.S., which we have a free trade agreement with, of course, that the impact of the free trade agreement with Korea on the auto industry will be very mild.

• (1550)

This assumption is very wrong. The 65% assumption is based on an analogy to the experience of Japanese automakers, who in some cases, not all, have located a lot of their production in North America. But Japan had a very different economic situation. It had much higher labour costs than Korea, and it was trying to avoid trade barriers that the Americans were putting in place. Also, Japanese companies are much larger scale than the Korean ones are, and that allows them to produce more vehicles in North America while still offering the full range of vehicles for sale.

We have heard this argument from government negotiators informally many times, but this is the first time we've seen this assumption in written form, and we're very worried about the implications. If federal negotiators wrongly believe that 65% of production from Hyundai and Kia is going to move to North America anyway, that could contribute to an enormous strategic mistake in their negotiations with the Koreans. The implication is that the free trade agreement won't really impact the auto industry, because it's all coming to North America anyway, and if negotiators wrongly believe that concessions they make in the auto talks aren't that important, then they won't get full value for those at the bargaining table.

We could go into more detail on the questions about the model's unrealistic assumptions, and also about its results, because even with those unrealistic assumptions, the model itself presents a very underwhelming case of the benefits of the free trade agreement. They expect an increase in Canadian GDP from the free trade agreement of 0.1% spread out over a period of several years—probably 10 years—so it's an infinitesimal effect on our economy that would be impossible to measure, and under alternative assumptions it's possible it would be a negative impact rather than a positive impact.

Let me take just a minute, Mr. Chair, on the environmental assessment report, which DFAIT also invited comment on. In our view, that report is also very flawed. The environmental assessment totally excludes at least two very important aspects of the environmental impact of our trade with Korea. First of all, it excludes the environmental impact of Korean use of expanded quantities of Canadian resources, including energy resources like coal, which we will be shipping to Korea in increased volumes after a free trade agreement, and this is absolutely wrong. For example, in Korea today there is a gigantic coal-fired power plant, the Poryong coal plant, and it is the second-largest source of coal-fired CO₂ emissions in the world. We will be supplying more coal to Korea, to that plant and other facilities, after a free trade agreement, and we can't ignore the environmental implications of that simply because the plant is in Korea.

Secondly, the study also ignores the emissions resulting from the shipping of goods back and forth between Korea and Canada after a free trade agreement, so we're very unsatisfied with that environmental assessment, as well as with the economic model. Our advice would be for the government to stop the negotiations with Korea, go back and conduct a genuine, more realistic, sector-by-sector economic analysis of the free trade agreement to identify exactly where some possible benefits will come from, and conduct a proper environmental assessment at the same time.

I'll leave those as my opening remarks, Mr. Chair. Thank you very much again for your flexibility, and I look forward to the questions.

• (1555)

The Chair: Great. Thank you, Mr. Stanford, and thank you for staying within the time. That gives us more time to proceed with questions later.

I'd like to now call on Mr. Fedchun, and you might correct me if I'm not pronouncing that right.

Mr. Gerald Fedchun (President, Automotive Parts Manufacturers' Association): Fedchun, as in Norman Bethune.

The Chair: There you go. I know that one well.

Gerald Fedchun, from the Automotive Parts Manufacturers' Association, would you please start, and please keep it somewhere under 10 minutes? Thank you.

Mr. Gerald Fedchun: Very good. Thank you very much.

First of all, the automotive parts manufacturers are the suppliers of parts, goods, and services for new vehicles. We are not in the aftermarket. It's very important to understand that.

I myself have been in the industry since 1964. For some of us Neanderthals, that's prior to the Auto Pact. I lived through the implementation of the Auto Pact at General Motors and I lived through the implementation of the Canada-U.S. Free Trade Agreement and the North American Free Trade Agreement with ITT, and was very active in getting those. In fact, we say that those agreements, all of them, have been very good for the automotive industry in Canada.

But the Canada-Korea Free Trade Agreement will not be. So we are, by nature, promoters of free trade where there is fair trade, but we have to make sure that it is fair trade.

On the environmental assessment that was previously mentioned, we don't think it's a very good assessment. There's a lot of uncertainty in it and it cannot be relied on. As an example, on page 26, it says that the increase will displace other imports of similar-class vehicles. In fact, we don't believe this is the case. It's a very bold assessment and it's completely wrong. One of the CVMA studies, which my colleague put out, shows that Canada and Korea do make similar vehicles, so Korea will be replacing Canadian-made vehicles, not other vehicles.

Also, on page 11, 1990 data is being used. Now, auto parts at that time was a \$12 billion industry; we're now over a \$32 billion industry. And that was three generations of automotive cars ago. Vehicles were 13 times more polluting then than they are now. So this data from 1990 is absolutely useless.

On page 17, the report assumes that the Korean products will come from Korean operations in the U.S. As said previously, this would only be true if you maintained the duty. But if there's no duty, then you have a free hand regarding where it will come from. And the assumption is that the Korean companies are like the Japanese companies. This is an incredible lack of knowledge of the North American market. When the Japanese companies came here in 1980s, we had the big three with 80% of the market. Volkswagen was the biggest importer at the time. Today, we now have the big three with about 50%, Toyota as number two, and a completely, completely different market than there was then, with lots and lots of competition.

So what we do know, from our auto shows, is that the Koreans are designing bigger vehicles, more luxurious, and in fact the same kinds of vehicles as we make now in Canada. Eliminating the tariffs is going to be tremendously damaging to our domestic manufacturers.

The operations the Koreans have built are in the southeastern United States. We predict that their production is going to go from about a quarter of a million units to about three-quarters of a million units by 2012. There are no benefits to Canadian workers for these locations because they're too far. Some Canadian manufacturers will in fact benefit, but they will have to build plants down in the southeastern U.S. But again, the Canada-Korea Free Trade Agreement is irrelevant to this. This will happen because of NAFTA, not because of any deal with Korea.

Nothing in the assessment will impact on the automotive OE suppliers—that is us—it's only on vehicle manufacturers. But I can tell you, as goes the OEM, so goes the suppliers. A 10-hour truck drive is the magic number for us. If it's 10 hours away, we can supply, and that means we can supply Ohio, Kentucky—in other words, Honda, Toyota, and Nissan. We cannot supply the southeastern U.S.; we have to build new plants there.

In the past, the Koreans have proven that they have the ability to impose significant non-tariff barriers. Until they prove to us that they have removed non-tariff barriers, we should not be signing a free trade agreement with them.

It's time for Canada not to be boy scouts. The Canadian market is a market they want to get into. In order to get into the market, they're going to have to prove their worth and the fact that they can be fair and free traders, like we are. Until they prove it, we should not sign the agreement.

Thank you.

• (1600)

The Chair: Thank you very much.

Now from the Canadian Vehicle Manufacturers' Association, Mark Nantais.

Mr. Mark Nantais (President, Canadian Vehicle Manufacturers' Association): Thank you very much, Mr. Chairman and the members of the committee, for today's invitation to appear before you on this important subject.

For 80 years, the CVMA has represented Canada's leading manufacturers of light and heavy-duty vehicles, which include Chrysler, Ford, General Motors, and International Truck and Engine Corporation. Since signing the Auto Pact of 1965, Canada's auto industry has really been built around free trade, and fortunately for Canada, that agreement has resulted in huge jobs created in our industry and—

[Translation]

Mr. Serge Cardin: The interpreter is asking that the witness speak a little bit more slowly.

[English]

The Chair: I'm sorry, Mr. Nantais, it's simply a matter of catching up with the translators. You're speaking a little quickly. I appreciate

you're trying to get through in the allotted time, but we want to let the translators catch up.

Thank you.

Mr. Mark Nantais: To the point where, today for instance, as a result of the free trade agreement in Canada, we build one and a half vehicles for every one we sell here. That's a pretty significant fact.

The CVMA and our member companies have fully and publicly supported all of the free trade agreements that Canada has signed, but knowing what we know at this time, we cannot support the one currently being negotiated with South Korea, primarily for one reason. The Korean market remains closed to foreign competition for manufactured goods. Since lifting a complete ban on imported finished vehicles, the Korean government has used a series of very complex and reoccurring non-tariff barriers to keep their market closed.

Here in Canada, unlike South Korea, access to the North American market is not restricted to those companies that manufacture domestically. Vehicle imports from Europe, Japan, and Korea continue at near-record levels of nearly four million units as of 2006. As a result, North America is in a unique position as a major auto-producing region in that there are significantly more vehicles sold within our market than are produced here. Compare that to Korea and Japan, which export over two million and five million new vehicles, respectively, each year.

As North America continues to accept increasing levels of imported vehicles into a flat or decreasing sales market, which is what we have right now, local production will be impacted if foreign markets cannot be found to offset sales of domestically produced vehicles.

Given the extreme pressures on the auto industry within North America, our members are continually looking for new avenues to increase sales and production at existing facilities. Unfortunately, Canada's opportunities in the wealthy and vibrant South Korean market are limited by government protectionist actions.

The actions of the Korean government to restrict foreign competition in vehicles directly led to two memoranda of understanding during the 1990s signed with the United States. Under each of those agreements, the Korean government agreed to eliminate specifically identified non-tariff barriers and to encourage two-way trade.

The Korean government responded with only minimal progress in removing some of the identified NTBs, but then introduced a new series of barriers that ensured that the market remained closed to imported products. Following a similar path under the proposed Canada-South Korea free trade agreement, we are going to have a very similar result.

All too often the Canadian position on trade with Korea has been oversimplified, ignored, and downplayed to try to undermine the significant concerns that the auto sector has raised. Our concerns were developed as a result of 20 frustrating years of experience, trying to gain access to the Korean auto market by our member companies.

I'd also like to brief you on some of the myths that have been perpetuated with respect to the CVMA and the auto industry's position.

Myth number one is that there will be no negative economic impact from the proposed FTA, because Korean-branded vehicles will be sourced locally.

You heard this statement directly from Minister Emerson and the lead trade negotiators just last week. This is based on poor information and an alarmingly incomplete analysis. The government's analysis states that there will be no increase in Korean-branded vehicle import sales in Canada and that the actual volume of vehicle imports from Korea will decrease substantially as a result of the U.S. assembly.

It is true that Hyundai has a U.S. plant that has been in operation for roughly two years and that there is a Kia plant now under construction in Georgia. While fully operational, Hyundai's plant can only produce one-quarter of their vehicle lineup, and as a result they continue to import near record levels of Korean-built vehicles into the Canadian marketplace. Other Korean manufacturers, such as Kia, will be no different.

As a result, the CVMA along with other private sector companies expect that the import levels from South Korea will not decrease with the introduction of Korean-brand vehicle assembly plants in the U.S., and with an FTA the levels of imports will actually increase.

This has several economic impacts. Tariff elimination will provide an additional cost advantage to importers, roughly \$1,300 to \$1,600 on every vehicle, and likely leading to the acceleration of imports. Vehicles built in South Korea and sold in Canada compete directly with Canadian-made products, which will reduce domestic production of vehicles, parts, and components.

In addition, if there is no direct Canadian-produced competition, which is today unusual, it will compete directly with vehicles produced in either the United States or Mexico and that have significant Canadian content.

Without access to Korea's closed market and with reduced domestic production, Canada will lose out on investment decisions, and the best intelligence we have at this time is that there is no Korean assembler investment anticipated in Canada to offset these losses. You may recall that Hyundai closed its only plant in Canada, in Quebec, in 1994.

● (1605)

Unfortunately, the government's economic analysis failed to study these long-term economic impacts, which is why we have had such difficulty accepting claims that there will be no economic downside to Canada's auto industry and economy as a whole as a result of the proposed free trade agreement.

Myth number two is that Korean manufacturers only import small vehicles that do not compete against Canadian-produced models.

While Korean brands are well known for their traditional small-car base, today their Canadian sales of SUVs and crossover utility vehicles match their sales of small cars. Despite the production in the U.S. of one of their SUVs, the Sante Fe, Hyundai and Kia will

import five different Korean-built small SUVs and crossover utilities that compete directly with several Canadian-built vehicles. This is in addition to the minivans and small cars imported from South Korea.

Soon—and contrary to what our negotiators seem to be aware of—it is anticipated that they will be introducing pickup trucks and diesels to further fill out their product lines, and will be in a position to directly compete against all Canadian-produced vehicles.

Myth number three is that Canadian manufacturers are looking for protection because domestic facilities are globally uncompetitive and build poor-quality vehicles.

The CVMA can proudly state that we represent companies with facilities in Canada that consistently win awards for the highest quality and productivity, according to third parties like J.D. Power and Harbour Consulting. On a broader scale, the vehicles sold by CVMA member companies consistently rank near the top in vehicle quality surveys, equal to or better than Korean competition. Our member companies are not looking for protection; however, we are looking for support in eliminating the protectionist actions of other governments in order to create a free and fair trade agreement.

Myth number four is that Japanese and European automakers are doing quite well in Korea, and only the North American automakers have a problem.

The reality is that no foreign automakers from any country around the world have access to the Korean auto market, as its market is the most closed of the overall OECD countries. In 2006, imported vehicle sales in Korea from all manufacturers from all countries, including Europe, Japan, and North America combined, hit at roughly 4%, yet Canada sits at roughly 85% in terms of imports, and the OECD average is well above that, at 48%. By any comparison or use of statistics, Korea is a closed market for all automakers, which is why right now the EU is having such a difficult time in their FTA negotiations with Korea as well.

Myth number five is that Korean consumers prefer different kinds of vehicles than those produced and sold by North American automakers.

The reality is that Korea's automotive market is nearly identical to Canada's auto market, where small and medium vehicles, minivans, and small and medium utilities and crossover utility vehicles combine to capture over 75% of the sales market. Koreans actually purchase more large cars and medium utilities and crossover utilities than Canadians. While many vehicle models in these segments are produced in Canada, they are only sold in Korea in very limited quantities. In Canada, North American brands hold 55% of the market. In Korea, those same companies have less than 2% of the market, regardless of where that product is produced.

Why does all this matter for Canada's negotiations with Korea for an FTA? The answer is simple. It impacts investment decisions in Canada, and therefore impacts Canadian jobs. In today's global auto industry, companies attempt to maximize plant utilization at each of their global assembly plants to maintain a competitive position. In most cases, products can be built anywhere within the corporate global enterprise and sold in markets around the world.

Most of our companies build products in other markets and import them into Canada for sale. Likewise, their Canadian operations build most of their products for sale outside of Canada. All of these Canadian-built products are currently sold in the many markets around the world, including South Korea. However, because of market restrictions they're only sold in small numbers.

If Canadian manufacturers cannot access foreign markets, then production mandates will be placed in other jurisdictions—it's as simple as that. An FTA with Korea will not create free and fair trade with unfettered access, and it will result in a continued increase in imports with no foreign market to offset those domestic losses in sales.

As I have said, the Korean government historically has created and used NTBs to block foreign products into their market. We fully expect this strategy will continue unless there is a meaningful incentive to open up their market.

• (1610)

With this mind we are requesting the Canadian negotiators to focus on three core priorities for the auto sector:

Do not trade off accelerated tariff phase-out for promises of market access in Korea or for any other FTA provision;

Put the onus on the Korean government to permanently eliminate existing NTBs, ensure the new NTBs are not introduced, and take other steps necessary to meaningfully open their market to foreign competition;

Maintain the prohibition on the import of used vehicles, because removing the ban would have significant environmental, safety, and economic impacts for Canada that have not been studied.

It has been claimed, though, on several occasions, that Canada should be copying the draft U.S.-Korea free trade agreement, which is very troubling for our sector in both Canada and the United States. Given the political signals out of the U.S., we are uncertain when this deal will be ratified. But furthermore, following the pattern of tariff elimination set by KORUS, the immediate elimination of tariffs on small vehicles would have a very significant and disproportionate impact on our industry in Canada, due to the makeup of our domestic production and sales segmentation.

In closing, Mr. Chairman, I want to remind everyone of the highly challenged position our sector is in right now in Canada. In November, Canadian sales dropped 5% compared to 2006. It is expected that 2008 sales will be even lower yet. In the U.S., a similar pattern has emerged with the ongoing housing and credit crisis. Sales this year are off 2.5% from 2006 levels and they are not expected to rebound in 2008. Production cuts have been announced for the first quarter of 2008 that will impact Canadian assembly and parts manufacturers. This is in addition to already-announced production cuts in 2008, which in Canada has resulted in two lost shifts at our most productive, highest-quality plants, as well as a significant reduction in OEM parts and components output and a commensurate drop in Canadian employment levels.

Mr. Chairman, I'd be pleased to answer any questions the committee may have. Thank you.

The Chair: Thank you, Mr. Nantais.

Before we proceed to questions, I want to remind the committee we have with us in committee Mark Nantais from the Canadian Vehicle Manufacturers' Association, Gerald Fedchun from the Automotive Parts Manufacturers' Association, and via conferencing—I should mention again, Mr. Stanford, we are getting you live on video with the telephone conferencing, so it's almost perfect.

Dr. Jim Stanford: It's working fine at my end. Thank you, Mr. Chair.

The Chair: Great.

To remind our witnesses as well as the committee, we have established a questioning procedure whereby each of the parties will lead off with a seven-minute question and answer period. So if the question gets a little long, I'm going to ask the witnesses to keep their answers short, because we're going to have to cut them off at seven minutes on the first round. We'll proceed with additional rounds of five minutes each.

For the first round, I'm going to begin with Mr. Bains.

Hon. Navdeep Bains: Thank you very much, Chair.

I'd like to thank the witnesses again for coming before the committee.

There are some problems with one of the witnesses coming, but I think it's working out really well, and I appreciate your presentation, Jim.

I want to understand something. Today we have the parts association representative, the manufacturing association representative, and the workers' representative. All share a similar position on the Canada-Korea free trade agreement.

From your perspective, are there other stakeholders? Jim, you mentioned a long list of people who have similar concerns. Do you have a list of those people who share similar concerns, who have expressed a similar viewpoint with respect to this potential free trade agreement with South Korea?

• (1615)

Dr. Jim Stanford: Yes, I'd be happy to present the committee with some of the names of other industry associations who've expressed concerns about this. I think the auto industry has taken a lot of attention in this debate, partly because of the importance of the auto industry to our overall economic situation in Canada, and partly because we have more well-organized stakeholder groups like the CAW to help advance the cause.

But if anything, frankly, I think other industries will be hit even harder. The machinery industry, for example. Machinery is a very valuable industry because it's very technology intensive. It's very innovative. The machinery sector has to be constantly innovating the types of products it makes. Machinery, by our estimates, will be hit at least as hard as the auto industry, and it's the same with computer electronics. The tool, die, and mould industry has an association that's expressed concerns about the FTA as well.

So I'd be happy to provide the committee with a list of some of the other industry groups that are just as concerned, and with good reason, as the auto industry.

Hon. Navdeep Bains: Again, that also goes to the parts manufacturer.

Mr. Gerald Fedchun: Yes, informally I canvassed all the other associations I'm familiar with, the Canadian Manufacturers & Exporters, the foundry association, all the other people I'm familiar with. I couldn't find a single person who was in favour of this free trade agreement. So I think if you canvass them, you'll find exactly the same thing.

Hon. Navdeep Bains: If you could provide a list of people—at least the ones you're comfortable with providing—that would be greatly appreciated.

Mr. Gerald Fedchun: Jim will do that, Mr. Chair.

Hon. Navdeep Bains: It would help the committee with future business as well.

The second question I have—and this is an issue I discussed when the minister and department officials were here—is with respect to the analysis around job losses. To my understanding there have been four official studies done with respect to the potential free trade agreement. One has been done by Industry Canada, one by U of T, and one by the CAW. There has also been an economic analysis done by the department, which was alluded to, and then there have been submissions by various stakeholders.

Of those reports, Industry Canada mentions a projection of job losses of between 5,000 to 35,000; CAW has projected 33,000 job losses. I know the department officials refute this number from the CAW.

Jim, based on their critique, have you had a chance to re-evaluate your number? Are you still comfortable with your methodology? And can you comment—this speaks to CVMA and the parts manufacturers as well—as to why there is a hesitation to put out numbers? For many Canadians I think it boils down to how this impacts potential job losses.

Dr. Jim Stanford: That is a good question, Mr. Bains.

The DFAIT study you referred to, which was prepared as part of the environmental assessment process but is the only official economy-wide study the government has conducted so far, assumes there are no job impacts as a result of the FTA. But remember, the model assumes there is full employment. It's a computerized general equilibrium model that assumes there is full employment of all resources, including all willing workers in the country. You can't prove there are not going to be job effects with an economic model that assumes workers will always be fully employed.

We have reviewed the critique of our study. Remember, our study is based on the actual experience we've had with the past five free trade agreements we've signed and the impact of those free trade agreements on both exports and imports. In almost every case our imports grew much faster than our exports. Interestingly, the DFAIT study assumes exactly the opposite. They expect Canada's exports to Korea to grow at a rate that is two or three times as fast as our imports from Korea, which is completely at odds with historical experience, both our historical experience with Korea and with other free trade agreements.

I still believe the CAW's approach is the most rooted in actual numbers, rather than unrealistic assumptions.

Mr. Mark Nantais: We would certainly agree that this is an alarmingly incomplete analysis. I fully agree with Mr. Stanford on the shortcomings of the economic analysis, as well as the environmental analysis. Even when you take the data that was used by the government, it shows we're going to be locked into a roughly \$2 billion annual trade deficit.

Hon. Navdeep Bains: There are two types of data that they used. In the U of T and Industry Canada studies they used 2005 numbers, and for the recent economic and environmental analysis they used 1990 numbers.

Can you comment on that as well?

• (1620)

Mr. Mark Nantais: Exactly. The 1990 data, for instance, does not recognize much of the transition that has taken place in the industry. You can well imagine that much has taken place between 1990 and now as it relates to the structural changes within the automotive industry—structural changes that are absolutely key to understanding the ramifications and implications for jobs in the auto industry in Canada.

Hon. Navdeep Bains: I have a quick question, again, to follow up; I know how tight the time is.

With respect to the impact, one area I think has been overlooked is the impact on the used car market. Could I get your thoughts on how this potential free trade agreement would impact that?

As well, could I have a comment with respect to investments. We know we're currently facing a productivity challenge in this country. There were comments made by the Ford CEO saying that if negotiations were to continue and we were to sign a free trade agreement there could be a lack of investment by large companies, and that could have an impact on our productivity and jobs. Can you comment on that part of the analysis as well, please?

Mr. Mark Nantais: As it relates to used vehicles, we understand from last week's testimony that the Koreans have put the possibility... or are at least requesting that the prohibition on used vehicles into Canada be eliminated, as part of their demands.

Hon. Navdeep Bains: Correct.

Mr. Mark Nantais: That would have quite a significant and detrimental impact on new vehicle sales, for one. These are vehicles that are relatively new.

It would also be contrary, actually, to some of the environmental objectives we as an industry are being asked to meet—that is, reduce pollution, reduce greenhouse gas emissions.

So we conceivably would have, as happened in New Zealand a number of years ago, a flood of nearly new vehicles into the country, which would really detract from the ability to turn over the fleet and gain the otherwise environmental benefits and other fuel-saving technology, for instance, from new vehicles.

In essence, you would be contributing to the environmental problems we face. One could even say it's equivalent to environmental dumping of used vehicles into this country, which would actually detract from what we're really trying to accomplish.

That's one very significant downside to opening up our market to used vehicles. The other one, of course, is the impact it would have on residual values of vehicles that people already own. It would greatly diminish those residual values for consumers.

So the many different implications of allowing these used vehicles into this country were not studied, in any adequate way, in terms of any part of the environmental assessment or the economic analysis.

In terms of investment decisions, obviously if we cannot get access to markets like Korea.... We spent roughly 85% of the \$10 billion by my member companies to improve the productivity of our plants—to improve quality and bring forward some of the most advanced flexible manufacturing systems that exist—not just to continue to export vehicles to our main market, which is the United States, but really to capitalize on what's going on around the world. In Canada, unlike the rest of the world, we're part of a North American market that is a mature market, where growth is very limited, and yet when we look abroad to these other markets, Korea, China, India, and so forth, we're into double-digit growth. Why wouldn't we be considering ways to capitalize on what we have here and produce vehicles here for those markets?

If we can't maximize utility of our plants here in Canada, that has investment decision implications. It's conceivable that if we can't maximize utility of these plants, then these plants will no longer get world or global mandates for these products, which means there won't be any more investment.

Hon. Navdeep Bains: Thank you.

The Chair: Thank you, Mr. Bains.

I'm going to ask the witnesses again, and our committee, if we could try to keep to under seven minutes. We were at about ten that time.

Hon. Navdeep Bains: I stopped at seven.

The Chair: I know you did.

In any event, we are going to proceed.

Monsieur Cardin, pour sept minutes, s'il vous plaît.

[Translation]

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

Gentlemen, good afternoon and welcome to the committee.

Ever since we've been hearing about a possible free trade agreement with Korea, it's mainly the automobile and auto parts industries that have been giving rise to debates and controversy.

I'd like to come back to certain points. I will start with Mr. Stanford.

You talked about it quickly, and I wasn't able to understand what you were alluding to when you talked about wage equality. Do you mean that the wages paid in Korea, in the auto industry, are comparable to wages paid here, in America and in Canada?

• (1625)

[English]

Dr. Jim Stanford: No, that's not the assumption made by the economic model.

The assumption was twofold. First of all, they assumed that wages within Canada were perfectly equal across every sector of the economy. The importance of this is that it underestimates the importance of losing a well-paid job in the auto industry. We all know that a displaced auto worker may indeed find work again some day—at Wal-Mart or at Tim Hortons—but it's the decline in their income that really matters. The economic model from the government has assumed that this cannot happen because everyone is paid the same.

Second, the model makes the assumption that the whole country is one big household that shares equally in all of the income that all the different industries generate. The distributional effects of a free trade agreement are also ignored.

Those are the two very strange assumptions made by the model.

[Translation]

Mr. Serge Cardin: Since this didn't deal with the wages paid in the auto industry in Korea compared to wages paid here, there's therefore no potential dumping based on wage conditions.

[English]

Dr. Jim Stanford: In Korea today, wages in the auto industry are about half as high as ours in Canada. Now, I would not call Korea a low-wage economy; it has developed very quickly and wages have grown quickly there. I think there are still some issues around human rights and labour rights in Korea. Some of the Korean trade union leaders have been arrested for opposing the free trade agreement. But for the most part, it's not unfair low wages that will be their source of advantage. It will be this very effective industry that they have built in Korea with so much government assistance—subsidized capital, protections on imports, and promotion for exports. Those are the things that have allowed Korea to become so successful globally, while strictly limiting their imports into their own market.

[Translation]

Mr. Serge Cardin: Mr. Nantais, I'd like to get back to what you call a myth.

According to the first myth that you mentioned, the free trade agreement will have no negative economic consequences, because the Korean vehicles will be assembled here.

How many Korean auto assembly plants will there be in Canada?

[English]

Mr. Mark Nantais: Assembly units? In other words, assembled in Canada? Is that the question, Monsieur Cardin?

[Translation]

Mr. Serge Cardin: Both: assembled and built in Canada.

[English]

Mr. Mark Nantais: I think we have to look at assembled and built in North America. There are no Korean plants in Canada. There is, as I mentioned, one plant, a Hyundai plant, in the southern United States and there is a Kia plant being constructed in Georgia. At this time, the best estimates are that we probably don't see that any more than 25% of what those Koreans sell in the Canadian market would be supplied by those North American plants.

That was, again, one of the real problems associated with the economic analysis, that it overestimates the number of vehicles that would actually be produced in North America for the North American or Canadian market.

[Translation]

Mr. Serge Cardin: There was a Korean plant in Quebec, which never produced anything, as a matter of fact.

In a free trade agreement with Korea, why shouldn't there be a condition stating that vehicles sold in Canada should be manufactured in Canada?

[English]

Mr. Mark Nantais: That's a very interesting question. Certainly that was, in essence, the results of the Auto Pact of 1965, that if you sell here, you shall produce here and you shall source from here. And that's what literally brought about, into Canada, many tens of thousands of job over decades, and it was a huge benefit to Canada's economy.

That is something that is not on the table. Our best intelligence, as I mentioned, indicates that we don't anticipate any Korean investment into Canada at this particular time.

[Translation]

Mr. Serge Cardin: A supplementary point might be to plead in favour of the manufacture or building in Canada of vehicles sold here.

From an environmental standpoint, you mentioned the fact that the transportation of Korean vehicles here would be a negative point. However, if we want to open up markets in Korea to sell American vehicles there, the problem of the environment would also be a factor, because we have to send them over there.

Wouldn't the solution to this problem be the manufacturing and building of Korean vehicles on Canadian and Quebec territory?

● (1630)

[English]

Mr. Mark Nantais: Well, that would certainly reduce the emissions that would otherwise be associated with the transportation of both new and used vehicles from Korea into Canada. Certainly if we want to gain access to that market, we would have to transport vehicles to their market. Yes, that does have an environmental cost associated with it. But the point with used vehicles coming to Canada is not only the environmental issues associated with the transportation costs, but also the fact that we're adding to the older part of the fleet on the roads of Canada. The older part of the fleet is one that contributes a disproportionate amount to smog-related emissions as well as greenhouse gas emissions.

So take for instance, as I mentioned, New Zealand. When New Zealand lifted their ban on used imported vehicles a number of years ago, they received a flood of those vehicles into their market from Japan, which actually resulted in the demise of a well-established automotive industry.

So we have both economic implications and environmental issues here that would detract from the very thing that we were trying to accomplish in Canada, which is to reduce smog-related emissions and improve our air quality and also reduce greenhouse gas emissions. The best way we can do that is through two things. One is technology, which is what we do best in reducing greenhouse gas emissions. And in Canada, we have adopted the most stringent national emissions standards for smog-related emissions in the world. These vehicles would come nowhere close to that level of stringency, so we would be contributing to the very problems we're trying to resolve.

Does that answer your question, monsieur?

The Chair: Thank you again, Mr. Nantais, Monsieur Cardin.

We'll now move to Mr. Cannan.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

And thank you to our guests. I appreciate your sharing your perspective on this very important trade agreement.

To start off with Professor Stanford, when Mr. Bains was talking, you referred to two different studies. Could you clarify which study? There was an Industry Canada study and also a U of T study.

Dr. Jim Stanford: When I was referring to Mr. Bains' question?

Mr. Ron Cannan: Yes.

Dr. Jim Stanford: I think I was referring to the DFAIT study and the unrealistic assumptions that they made, but I could refer to the Industry Canada one and the U of T study as well. I am familiar with those.

Mr. Ron Cannan: I just wanted to clarify which one.

You're a doctor of economics. Is that correct?

Dr. Jim Stanford: I have PhD, yes. I'm not a professor yet, so I appreciate the flattery in your initial comment, but not just yet. I am a PhD in economics.

Mr. Ron Cannan: Where did you get your doctorate from?

Dr. Jim Stanford: I received my doctorate from the New School for Social Research in New York City in 1995.

Mr. Ron Cannan: Thanks.

I agree it's important to analyze all the reports. We can sit here and pass each other reports until the cows come home, and we could have four economists pile up here with five different opinions. In fact, we've had some witnesses, who have already presented to our committee, state in no uncertain terms that there are all kinds of flaws in the methodology and the theoretical foundation specifically of the CAW study. The study assumes that all trade changes as a result of free trade agreements, and in doing so it disregards GDP growth, interest rates, exchange rates, and the rise of China and India. It assumes that Canada does not trade with any other nation, and so any additional import is at the expense of domestic production. It does not consider the current features of Canada-Korea trade like the specific tariff rate.

Ian Burney, the chief bilateral trade negotiator, said last Thursday that the study assumed that 12,000 of those jobs would be lost in the electronics and computer sector, which is already largely tariff-free between Canada and Korea. So it's illogical to assume there will be 12,000 job losses in those sectors. The study also disregards the agriculture industry, ignores notions of longer-term efficiency gains, and dispenses entirely with consumer welfare.

So as I suggested to you, you can have all kinds of individuals who will show more holes than Swiss cheese in your report, and you want to come back and shoot ours down. I think the fact is that we're here to work together. As Mr. Fedchun said, we have to be boy scouts—I have three daughters, so we have girl guides here too—and work together. We believe in fair trade and free trade.

Specifically looking at the Canadian dollar and the increase we've had over the last five months, we've heard from manufacturing sectors across the country—I represent a riding in the interior of British Columbia where we see some real benefits from the Pacific gateway initiative—and the forest sector. Mr. Woo, who spoke to our committee as the president of the Asia Pacific Foundation of Canada, stressed that this is a good deal for all of Canada. Another individual witness, Joan Baron, who is with the Canadian Chamber of Commerce in Korea, alluded to the fact that there are great opportunities in a million-cars-per-year market in Korea if the industry is willing to adapt itself to meet the Korean specifications.

I guess my question would be, as the major currencies have also appreciated relative to the U.S. dollar, should the auto industry not diversify its export markets? How would you suggest the Canadian manufacturers reorient their strategy in order to export to Korea? That's assuming you're interested in it.

I'm looking at the librarian's report, which said the United States accounted for 96% of the Canadian motor vehicle exports in 2006, which has been pretty consistent since the nineties. So if you're investing and you're looking to broaden your market, it's no different from the case for our own personal investments—you don't put all your eggs in one basket. Canada has fallen behind in foreign trade agreements, so I'd like to hear your thoughts on expanding and looking at the potential market, if that is of interest to you and the industry representatives.

I open the floor to the witnesses, and if I have a few minutes, I'd like to allow my colleague Mr. Miller to ask a couple of questions as well.

● (1635)

Mr. Gerald Fedchun: Let me start from the parts side. First of all, as our wage rates are substantially higher than Korea's, it's very difficult to export to Korea. For parts, it's difficult to do that, so we'll only get them exported if they go in finished vehicles. To have a competitively priced product to service Korea, there will be a relatively small number.

We can do that. We can do that now with various parts, but the Koreans won't let us. They have non-tariff barriers. They make life so difficult that people don't buy our product. I think 5,000 or 6,000 foreign vehicles were bought in Korea, in a more-than-a-million-car market. Now, that's not by accident. That doesn't happen because things look bad; it happens because the government has a very firm and very strategic policy to make sure foreign vehicles don't get bought in Korea or imported into Korea. Until they stop doing that, we'll get zero benefit out of a free trade agreement with them. They've been doing it for years, and they're not about to stop. That's what they do, and unless you say, "We won't sign until you get rid of these barriers", they're not going to stop. They couldn't care less.

So I think we have to be really hard on them and tell them, "Don't do it," and "Nothing happens until you stop". It's pretty simple.

Then I'll tell you my real opinion later.

Voices: Oh, oh!

Mr. Mark Nantais: If I may, Mr. Cannan, you mentioned that maybe Canadian industry needs to diversify its approach. As I mentioned in my remarks, and I think it should be well documented in the papers we've provided, the profile of the Korean market is very similar to that of Canada. The products we build in Canada can compete head to head with the market segments in Korea.

As Mr. Fedchun has just pointed out, we continue to be faced with these non-tariff barriers to trade. They have included not just a constantly changing landscape in terms of non-tariff barriers but things like higher consumer taxes on imported vehicles and mandatory government testing on specific vehicles, like 4x4s, when in fact they didn't have the test facilities in place for two years after they imposed that. We cannot send vehicles over to that market only to have them sit on the dock for a month, let alone two years.

There are other things, like different licence plate requirements, which are what I call Frankenstein regulations. They cherry-picked emission standards from around the world and put them into their regulations, which is why virtually no vehicle manufacturer could meet those standards. These are all typical non-tariff barriers.

I might add that I've appeared previously before committees on this issue. I've been flanked by both the beef and pork industries, and they too have experienced non-tariff barriers. So this is something that is not specific to autos. Many different sectors, and certainly our own sector, experience these ongoing shifting lists of barriers as we go forward.

As I mentioned, no vehicle manufacturer, regardless of where they produce in the world, has had any major success in this market.

The Chair: Thank you.

Thank you, Mr. Cannan.

That's not bad. That was seven minutes and twenty seconds. It's the best yet.

We'll go to Mr. Julian.

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

I won't ask Mr. Cannan for his credentials, because I know that the text he read out didn't come from him; it came directly from the PMO.

I'd like to thank each of the witnesses for coming forward.

I'll start with you, Mr. Stanford.

• (1640)

Mr. Ron Cannan: On a point of order, Mr. Chairman, could I have an apology from that gentleman across the way for making those comments? His comments were on my pieces of paper here, my research.

If you want to take shots at me, we can go outside afterwards.

Mr. Peter Julian: I'll continue with the witnesses.

The Chair: Perhaps we'll start again at seven minutes for Mr. Julian. Go ahead.

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

Mr. Stanford, you prepared a very detailed criticism of the study that came out from International Trade. I won't go into the details, but one of the aspects you touched upon in your presentation was the fact that there are constant returns to scale. So regardless of whether a factory's producing 200 or 200,000 vehicles a year, they just assume that there is the same level of cost competitiveness.

Your criticism is very detailed. The criticism of the CAW report that we heard from the minister and from International Trade officials was largely superficial. The language they used was very strong, but the only element they seemed to point to was the issue around computer and electronic products, that somehow, because they're tariff-free, the job losses estimated by the CAW study in that sector are not legitimate. That's what they pretend, anyhow.

I'd like you to explain those figures—12,556 net jobs lost—and also explain the estimates for the auto industry and auto parts. I believe they're contained within the transportation equipment manufacturing section, but I could be wrong. Please explain those figures as well.

If you have time, could you come back to any studies done by the CAW, or anyone you know of, of past comparisons of International

Trade projections and the actual net results of our bilateral agreements?

Dr. Jim Stanford: Thank you, Mr. Julian, for that question.

In terms of the methodology that we've used in our study, it's fundamentally different from the computable general equilibrium approach that the government has used, and that the government has used in the past to justify other free trade agreements that we were entering into. Our approach has been rooted in historical data. Rather than making particular assumptions about how markets work and equilibrium conditions like full employment and so on, we have simply gone back and looked at the historical record of free trade agreements, how much of an impact they had on exports and imports, and then assumed that the Korean case would be similar to that.

If anything, I'd suggest that's a conservative impact, because we have never signed a free trade agreement with an Asian economy that typifies that very state-directed model of economic development that the Koreans have followed. If anything, I think our experience in Korea will probably be worse than the average, but our model assumes it will just match the average of those other five agreements.

What we find in practice, looking at the history of free trade agreements, is that they have a much larger impact on trade flows than just tariff reduction alone would seem to justify. Tariffs are not that large; they are only 5%, 6%, or 7%, even lower in some industries, so you wouldn't expect the dramatic changes in the wake of a free trade agreement that you actually have seen in our other cases. That suggests that there's a structural change in business strategies, market awareness, and the ability to export to a new market that is quite independent of the size of the tariff in the first place. That's the justification for why you could have a major impact in a sector like computers and electronics that have lower zero tariffs anyway, simply because the structural change in bilateral trade, which is opened up by the free trade agreement, leads to much larger trade flows on the basis of what footprint that trading partner already had in our market.

In terms of how we justified the auto industry case, we did include auto within the broader transportation equipment sector, but we did separately model the vehicles and parts flows. We anticipate a total impact of something like 4,000 lost jobs. Again, this is going to build into it investment reactions to the free trade agreement of the type that the CEO of Ford Canada was hinting at.

Again, the DFAIT study and the Industry Canada and the University of Toronto studies, as well, all assumed there'd be no impact whatsoever on Canadian auto investments as a result of the free trade agreement, and I think that's a very unrealistic assumption.

So our approach takes an actual look at history and assumes that something like that will occur in the Korea case. That's a very different methodology from what any of the government-sponsored studies used.

Mr. Peter Julian: You're saying it's a more practical approach. Are you aware of any studies of past discrepancies between International Trade's projections and what the actual results have been?

● (1645)

Dr. Jim Stanford: To answer that part of your question, there were a number of those studies in relation to the Canada-U.S. Free Trade Agreement. There were many economic models put in place to study the impacts of the free trade agreement. Those who were around for those debates will recall predictions of significant productivity gains, a harmonization in productivity levels between Canada and the United States, and a significant increase in GDP. Of course none of those did prevail. We actually fell further behind the Americans in productivity terms after the free trade agreement.

In terms of the scale of the impact on exports and imports, however, the free trade agreement had a much larger effect than any of those computer models indicated. That supports the hypothesis that a structural change occurs once you have implemented a free trade agreement. The amount of trade going in both directions grows much faster than you would expect looking only at the tariff rates.

The problem for Canada is that in four of the five cases our imports grew more than twice as fast as our exports grew. That's where the job loss comes from.

Mr. Peter Julian: I have a final question then to our other two witnesses. If the study that Mr. Stanford's referring to looks at a net job loss of about 4,000 jobs in the auto sector, is that congruent with what your estimates are?

Mr. Gerald Fedchun: From the parts side we have not done a study, but we simply do know there will be lost jobs, because for every auto that we don't build but import instead.... I mean on the ratio of jobs at the assembly plants; there are three jobs in an auto parts plant for every job in an assembly plant. So it's a very simple ratio. We haven't done a study to do the actual analysis.

The other point I'd like to make to Jim's argument on the investment is that Bill Osborne, the president of the Ford Motor Company of Canada, Limited, last week said that if there is a free trade agreement, they'd have to seriously consider their investment in Canada. He made that statement in a public forum. So we know that investment is seriously being considered. And a similar statement, not quite exactly the same, was made by Reid Bigland, the head of Chrysler Canada: it's very simple—if we can't get return here, then maybe we don't invest here.

So investment is in jeopardy if we go forward with this agreement, as presently constituted.

Mr. Mark Nantais: We haven't done any specific studies either, but I certainly concur with Mr. Fedchun on the reality of what chief executive officers are saying.

As I mentioned before, we've invested \$8.5 billion in the last few years to upgrade plants and make them the most productive, highest-quality plants we can. Obviously if we don't have markets for our products, the decision-makers who are not locating in Canada will decide one way or the other on the best place to produce those vehicles.

Canada has become for some companies the highest-cost jurisdiction in which to produce. That does not bode well for future investment. We have to look to every possible avenue to maximize the utilization of these plants and find ways to keep these global mandates here in Canada. We have a tough job ahead of us.

I appeared before the industry committee last week, and when you look at all of the factors that we as an industry are faced with now, whether it's the Canadian dollar, the high-cost jurisdiction, or the Korea free trade agreement, all of these things are now being factored into decision-making. We can't respond to one or the other because we look at things in totality, in an aggregate form, and that determines whether new product mandates are going to be established for the future.

The Chair: Thank you, Mr. Julian.

We're now moving into the first five-minute round. We'll begin with Mr. Temelkovski.

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

Last week the Minister of International Trade stated that he was worried about the consequences for Canada if the U.S. ratified a trade deal with Korea before Canada. Are his worries warranted? This is to Mr. Fedchun and all three of you.

Mr. Gerald Fedchun: We have relations with our equivalent organization in the United States. Certainly the reading we get from them is that the probability of ratification of the U.S.-Korean free trade agreement is almost nil. All of the parties and leading candidates in both parties in the United States have said they will not ratify it. So we cannot see that happening.

● (1650)

Mr. Lui Temelkovski: Mr. Stanford.

Dr. Jim Stanford: Even if the Americans ratify—and I agree with Mr. Fedchun that it is increasingly unlikely by the day—I don't expect it will have any significant impact on Canada's economy.

Most of Canada's current exports to Korea—and this is very interesting and surprising—actually enter Korea under very low tariffs. On the aggregate weighted average tariff rate that Korea imposes on our sales to Korea today, other than a small number of high-tariff agriculture sectors, the vast majority of our exports to Korea enter under very low tariffs. The fact that the Americans would get tariff-free access to Korea in those sectors where most of our exports currently are would have no significant impact on us.

Mr. Lui Temelkovski: Mr. Nantais.

Mr. Mark Nantais: We agree with Mr. Fedchun's assessment. Ours is very similar as to the timing and the probability of that agreement being signed. I also agree with Mr. Stanford on his assessment.

Mr. Lui Temelkovski: What are the implications of a free trade agreement for Korean subsidiaries based in Canada? Will there be any impact on these subsidiaries if Canada does not sign a free trade agreement?

Mr. Mark Nantais: Perhaps you are referring to the arrangement that General Motors has with their affiliated company in Korea. In order to gain more than just access to that market, they had to basically buy their way in. The key point here is that given the direction that Canadian negotiators are going in at this time, they also have grave concerns about the Korea free trade agreement. They will continue, of course—as the Koreans are right now—to import those vehicles facing the tariff.

Mr. Lui Temelkovski: How would that impact the 165 dealers that are already here?

Mr. Mark Nantais: In terms of the dealers, these vehicles coming into Canada are faced with the 6.1% tariff. The import numbers have been growing. So whether or not we have an agreement in Canada, the impact would be relatively small.

Mr. Lui Temelkovski: Mr. Stanford.

Dr. Jim Stanford: I tend to agree that not signing a free trade agreement is not going to have a negative impact on the volume of vehicles coming into Canada from Hyundai and Kia. I think we should do something about the volume of imports coming into Canada. They are exporting almost \$2 billion a year worth of automotive products to Canada, and buying about \$10 million a year back from us. That's a huge imbalance—about a 200:1 imbalance.

Remember, there are far more jobs involved in manufacturing automobiles and their parts than in the dealer network. I am concerned about that current inflow, but not signing a free trade agreement is not going to do any damage, in and of itself, to the Hyundai and Kia dealers here.

Mr. Lui Temelkovski: If there's any time, Mr. Chair, maybe my colleague can speak.

The Chair: You have three minutes.

Mr. Sukh Dhaliwal (Newton—North Delta, Lib.): Thank you, Mr. Chair.

Thanks to the panel and witnesses.

Government should be working with the stakeholders and incorporating their suggestions into this free trade agreement that they can enter into. Can you all tell me whether there have been any talks with you, and how that feedback is put into the system?

Mr. Mark Nantais: Certainly the CVMA and its member companies have been part of an ad hoc consultation group with DFAIT and their negotiators, which we appreciate very much. We made several recommendations and put forward some very significant proposals on how we thought it would be best to approach tariff reductions, dispute resolution mechanisms, and so forth. Many of them were developed by some of the most reputable trade lawyers in Canada, only to be dismissed on the basis that this is policy that we've never used before in a free trade agreement. That's been very disappointing to us.

We feel that we've given them some very plausible solutions for bringing about what is necessary for both free and fair trade, but they've only incorporated a small portion of them.

Mr. Sukh Dhaliwal: Mr. Stanford.

• (1655)

Dr. Jim Stanford: I would make a similar point. We also participated in that ad hoc consultative committee, and we appreciated the information exchange. But it would be completely misleading and wrong for anyone to suggest that as a result of the actions of that consultative committee, the government has been listening, incorporating, and responding to the concerns of the auto industry.

We also made several suggestions through that committee on how these negotiations should be handled. We gave proposals to exclude

the auto sector from the free trade agreement, given how unbalanced our trade with Korea already is; establish a commitment to two-way trade in automotive if trade is going to expand with Korea, so they have to buy as much from us as we buy from them in the auto industry and other strategic components; and even just establish quantitative targets, whereby the Koreans have to demonstrate by their purchases from us that they are opening their market before tariffs would fall on our side.

All of those suggestions have gone absolutely nowhere with the government. We appreciate the two-way communications, but I have no indication whatsoever that they're listening to the auto industry's concerns.

The Chair: Thank you, Mr. Temelkovski and Mr. Stanford.

We'll move on now to the second round.

From the Bloc we have Monsieur André for five minutes, please.

[Translation]

Mr. Guy André (Berthier—Maskinongé, BQ): Good afternoon. Thank you for being here with us at the committee.

First of all, I'd also like to congratulate the Canadian Auto Workers for the study they produced.

I read your study about the repercussions of a bilateral Canada-Korea trade agreement, and it is clear and well quantified. We see very clearly the consequences of this bilateral agreement. Last week we met with Mr. Burney, a government official, and Mr. Emerson, who told us that the Canadian Auto Workers had produced a study that was not valid. They even anticipated that the auto industry could export more vehicles and enter new markets in order to arrive at an agreement, as you have requested.

In general, you're asking for trade agreements that are fairer and more balanced. We would export cars to Korea, we would import the same number, and the exchange would be fair. What you're asking for is completely justifiable.

In your opinion, is that the intention? Is there a possibility that you could sit down with the government and officials and arrive at similar studies or at least, have the same analytical grid of the consequences of this study, the economic repercussions of the Canada-Korea agreement?

I was also pleased to learn that there has been a lot of pressure on the part of the government for our Canada-Korea agreement to be called into question in the event of a Canada-US-Korea agreement. I'd like to hear your views on that subject. You told us, and that is what we believe, that it was not clear that a Canada-US agreement was on the point of being signed, contrary to what the government told us last week.

In your document, you also exposed the fact that there is currently a Harper-Emerson strategy. No free trade agreement has been signed for over five years. They absolutely want to sign a bilateral agreement to make a political statement and demonstrate that something is being done and that Canada is active internationally, without necessarily measuring the effects this could have on the manufacturing industry.

I'd like to hear all three of you on this subject.

[English]

Dr. Jim Stanford: Thank you for the question. That's very thoughtful.

I wish it were the case that economists could sit around a table, simply agree on the facts, go back and forth with the assumptions and methodologies, and come up with something that was mutually acceptable. I think that shows more optimism in the economics profession than even I have, and I'm optimistic as an economist.

Frankly, I don't think that's possible in this case. The fact that the government had 14 rounds of negotiations with the Koreans before even producing the first economy-wide study of the impacts of this agreement they've been working to reach proves that for them the economic analysis is an afterthought. They were determined to negotiate an agreement with Korea regardless of what their economic study indicated; otherwise they would have done the study first and identified the concrete sectors that could actually gain from this.

I have the sense, as you alluded to, that the thing was driven from the beginning by political considerations and perhaps institutional considerations. The government wanted to sign a free trade agreement because they hadn't signed one for a while. Remember, there's a whole department of officials on Sussex Drive whose job is to sign free trade agreements. That creates an institutional degree of momentum to sign the agreement just for the sake of signing the agreement. I think that's a bad error in strategic judgment.

The government should have conducted a very careful sector-by-sector analysis to identify the sectors that could possibly win, identify the costs and the risks, and then make a judgment that the benefits were greater than the costs.

So far, apart from a very small number of agricultural sectors, particularly the beef industry, it is not clear at all who in Canada can possibly benefit from this. But we have identified many important sectors that are very much at risk.

• (1700)

Mr. Gerald Fedchun: I just want to add that, back when this thing started, when we had our first meetings with DFAIT, we volunteered to work with them and to do an analysis of the automotive industry. We said, you can do what you want and we'll give you information. That offer was never taken up. They ended up producing their own study without ever talking to us—and we know this industry way better than they do. They said, well, what do you know about it, just because you've been in it for 40 years? We're free trade guys; we know everything, and much more than you do. So they ignored us. We were treated like well-groomed mushrooms.

Some hon. members: Oh, oh!

The Chair: That's a great spot to leave it at. I'm going to have to ask you later about grooming mushrooms.

Mr. Miller.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): I'm going to be trading my time here, or splitting it with Mr. Allison.

There's been talk today, and even before, from some witnesses about details of a document that's out there, a free trade agreement.

Unless our witnesses know something that I don't, there is no document out there. If you do have something, I'd ask that you table that agreement today.

We've had witnesses here who have told us, and some of them are chief bilateral trade negotiators, as well as the Minister of International Trade, that the best way to address non-tariff barriers would be within the context of a broad free trade agreement or negotiations. In fact, the minister has even said that any proposed agreement would only be agreed to if it benefited Canada.

Another fact I've heard here is that 85% of all Canadian cars produced in Canada are exported, and I've even seen one report that says it's 96%.

Mr. Nantais, I'll quote a comment you made the week of December 3: "Canada's auto industry, and Canada, as a result, has benefited greatly from free and fair trade, especially with our NAFTA partners". So I guess some of your comments are contradictory in regard to that.

The question I have for you is, what can you or the CVMA offer as an alternative for the Government of Canada on how to address these non-tariff barriers, and what's your plan to address them? I'd like to hear your comments on that.

Mr. Mark Nantais: First of all, I don't think my comments are contradictory to those of December 3. We have benefited from free trade agreements, but the free trade agreements that have been negotiated properly, where we have received reciprocal access, and where things have been put in place to actually remove systematically the non-tariff barriers and other barriers that may exist. We don't have that, thus far, in this negotiation, as far as we can see.

We've put forward, as I mentioned, proposals that were developed by some of the most reputable trade lawyers in Canada on solutions and approaches to get rid of these non-tariff barriers to trade, including dispute resolution mechanisms. The key thing here is to avoid what Korea has done so well for so many years, which is that when they get rid of one tariff barrier, they create another one.

Mr. Larry Miller: I want to hear what you're going to do, Mr. Nantais, what you're suggesting.

Mr. Mark Nantais: What we have suggested, based on proposals developed by some of the most reputable trade lawyers, are dispute resolution mechanisms involving materially significant and proven removal of NTBs; and if those NTBs are not removed, then we would have a complete snap-back provision of the tariff reduction. So if the tariff were reduced to a certain level and a non-tariff barrier then arose, then the tariff would go right back to the total level it was before.

• (1705)

Mr. Larry Miller: So basically what you're saying is, have more negotiations?

Mr. Mark Nantais: No, I'm not saying negotiations at all. I'm talking about a very specific snap-back provision when non-tariff barriers arise again. There has to be a proven and consistent absence of those non-tariff barriers to trade.

I think we've put forward some very significant proposals that have been ignored by our negotiators.

Mr. Larry Miller: Mr. Allison.

The Chair: You have three minutes, but we'll have another round as well.

Mr. Dean Allison: To continue, I would certainly agree that non-tariff barriers are a concern. There's no question about that.

Mr. Stanford, do you want to comment on this as well? What are some of the things that could be done to deal with those issues? What I'm hoping will happen is that we develop dispute resolution mechanisms while we negotiate and that we look at snap-back provisions. You don't sound very confident that this is something we're working on as a government. So are there any other things in terms of NTBs that you'd suggest we look at?

Dr. Jim Stanford: The fundamental problem with the non-tariff barriers on the Korean side is that they're very flexible and very opaque. It's very hard to identify what precise non-tariff barriers are limiting your market sales at any point in time. Therefore, it's going to be impossible to determine, on the basis of a promise the Koreans make when they sign the free trade agreement—and I can assure you they will make the promise that non-tariff barriers are going to be removed—whether they are still there or not or whether alternative non-tariff barriers have been erected in their place.

For us, if you like, the proof is in the pudding. We will know that the Korean market has been effectively opened when they're buying stuff from us. That's why the main thrust of our recommendations to the negotiators has been to argue that any expansion in Korean imports of automotive products or other strategically identified commodities must be offset by Korean purchases from us. They have to be buying from us, it has to be a two-way street; otherwise the quantitative access to our market has to be limited.

We will try to skip the whole issue of whether the NTB is there or not and cut straight to the chase. Are they buying from us? If so, we'll expand trade. If not, we'll limit trade.

Mr. Mark Nantais: Mr. Chairman, may I add to that?

The Chair: Perhaps in the next round.

I'm sorry, we're going to have to cut it off and go to the next round. This will be our third round, five minutes again.

We're beginning with Mr. Maloney.

Mr. John Maloney (Welland, Lib.): On the non-tariff barriers, we seem to be very caught up in this. Have you discussed your suggestion of how to deal them, the snap-back provisions, with our negotiators? Are they receptive to that idea, or something similar?

Are there any communications between those who are opposed? You three gentlemen seem to represent interests that are very much opposed to the agreement. Is there any communication with our government negotiators?

Mr. Mark Nantais: Well, sure. Part of our ad hoc consultation group have had ongoing discussions with them. This is the point. Those discussions have led to virtually no inclusion of what the auto industry has put forward.

As I mentioned, we've put forward some solutions based on some of the most reputable trade lawyers. I'm willing to make those legal opinions fully available to this committee as to what an appropriate

approach would be in the context of global trade law, in terms of what is acceptable and what is legal, as a way to approach these negotiations.

I'd be certainly glad to provide those to this committee.

Mr. John Maloney: I wonder, Mr. Chair, whether we could have those opinions.

The Chair: Yes, sure.

Mr. John Maloney: Thank you, Mr. Nantais.

Mr. Gerald Fedchun: I just want to say he's absolutely right. We've put things forward and we've been ignored.

Mr. John Maloney: What would the Koreans want to buy from us other than our natural resources? What does Canada have that they would like, as far as a two-way trading situation is concerned?

• (1710)

Mr. Gerald Fedchun: Nothing that I know of—that's honest. There are not many things they want from Canada. I guess you'd have to ask them what they have, but natural resource access appears to be what they're really after.

Do you have any other ideas, Mark?

Mr. Mark Nantais: Other than autos, no.

Mr. John Maloney: Mr. Fedchun, you've referenced the remarks of the head of Ford Motor Company about how they'd have to reconsider investments within Canada if we proceed with a deal that doesn't give market access. The U.S. is negotiating a deal, as you know, but all three of you feel that this agreement will never be signed, at least perhaps not in its current form. In fact, if it were, where's the...? Are they trying to intimidate Canada to enter into an agreement that's more favourable to the auto industry? What is the motive?

If the U.S. were to in fact sign an agreement, they'd be in the same position—Canada and the U.S.

Mr. Gerald Fedchun: No, I think he was just telling the Canadian public the truth. If I were the CEO, I'd say, gee, if I'm going to lose my shirt here, maybe it's not a good place to be. A little bit of reality is good for all of us to understand.

But the U.S. is in an entirely different position. They do have one assembly plant in the southeastern U.S. and they're about to build another one. So their situation is a whole lot different from ours. A lot of U.S. parts people in the southeastern U.S. will benefit by those parts plants.

We don't have that opportunity. We do not, in the foreseeable future, see any Korean investment in Canada in the auto industry. So it's a whole different ball game with completely different results and completely different wins for the U.S.

Dr. Jim Stanford: If I could jump in on that very point, there are a couple of other important differences between the Canada-Korea talks and the U.S.-Korea talks. The first is, as Gerry just mentioned, that the U.S. is getting two assembly plants out of the deal, and that's very important.

Secondly, the American dollar has depreciated substantially against the Korea currency, by about 30% over the last few years, while these negotiations were occurring. That greatly reinforces the ability of American companies to stay in business. For us, it's the opposite. Our currency has appreciated against the Korean by 20% to 25%. So on top of the 5% or 6% or 7% tariff headstart that we're going to give Korean producers, we've also given them a 20% to 25% currency headstart that will compound the problem.

The third big difference is that the American tariff on vehicle imports is much smaller than ours, 2.5% versus 6.1%. So they had much less to lose in the auto case as well.

The Americans had less at risk than we do, yet the Americans negotiated a better deal than it looks like we possibly can. That's an incredible irony.

Mr. John Maloney: Both the government and you have done economic studies. Both parties have panned the other's objectivity or their methodology. Have you ever gotten together and tried to look at where there may be commonalities? It's just incredible that educated people can study the same situation and come up with different positions. Is there a common ground somewhere that we could strive for?

Mr. Gerald Fedchun: We're ready, willing, and able, and we have been for a number of years, and we have not been consulted. We said we would. So we're still ready, willing, and able right now, and we could get together and do it, I think, pretty quickly. But people have to ask us.

Mr. John Maloney: I want to go back to non-tariff barriers. It seems to be a moving target, that they always throw something up that wasn't anticipated before. Are they asking for things that they don't exact from their own manufacturers, such as emission standards? Are they asking from North American vehicles something that they don't have themselves for their own vehicles?

Mr. Mark Nantais: In some cases, yes. These are vehicles that are being produced for their domestic market, so they would design for that domestic market.

When you look to manufacturers from around the world, you need to understand what's going on in terms of different trade blocs and as it relates to vehicle regulations, as an example. You have basically three regimes, if you will. You have Europe, North America, and Asia Pacific. What they seem to have been doing is cherry-picking, as I mentioned earlier, on these specific standards.

So it makes it much more difficult from a manufacturer's perspective from abroad going into Korea. That's really the issue here. It's like a game of whack a mole, where one pops up, you whack it, and another one pops up somewhere else and you whack that, just like you do at the summer fair. It's something that has been very elusive.

And just to comment on the question Mr. Allison had earlier, take for instance the United States; they signed two memoranda of understanding with Korea in 1995 and 1998, both very specifically designed to deal with the removal of non-tariff barriers, and very minimal progress was made on both of those agreements. They've showed basically only face-value changes in terms of removing those non-tariff barriers, but in turn they've created many more non-

tariff barriers. That's the name of the game in Korea. It makes it very difficult from any global manufacturer's perspective.

●(1715)

The Chair: Thank you, Mr. Nantais. Thank you, Mr. Maloney.

We'll go now to Mr. Allison.

Mr. Dean Allison: Thank you, Mr. Chair.

Once again I appreciate the fact that we started looking, as all you gentlemen articulated today, at the issue with NTBs. We have an issue in which we continue to have autos decline in terms of surplus and what we export, and we have an opportunity to try to do something. I realize America is doing this.

Part of what you're saying is that we just need to negotiate a better deal. Are you gentlemen fundamentally opposed to a free trade agreement, or is it just making sure we get the best deal possible? I appreciate that. The target's moving, and we're trying to do these kinds of things. Is a free trade agreement not one way we can try to at least start to address some of these issues?

Mr. Gerald Fedchun: I think it's pretty straightforward. I said this three years ago. If you can prove to us that they are not using non-tariff barriers, then we can sign an agreement. But they have to prove—I'm from Missouri. They have to prove to us first, because they've been doing it for years. They're very good at it. They're one of the best in the world at using non-tariff barriers, and it's a question of, because you're so expert at that, I don't trust you anymore. It's that simple.

Mr. Dean Allison: Mark, and then Jim.

Mr. Mark Nantais: The memorandum of understanding that was signed with the United States is proof of that. They showed no significant removal of non-tariff barriers, despite those two—not one, but two—agreements. The proof is in the pudding there. They have no real interest of opening to the market. They simply want to capitalize on our market.

In answer to your specific question, do we support free trade? Yes, absolutely, but it has to be fair. And fair means full two-way trade and fairness in that regard. We don't see that as it currently stands. We would support the right deal, but we don't have a right deal yet, as far as I can see.

Mr. Dean Allison: Mr. Stanford.

Dr. Jim Stanford: Similarly, our union recognizes that our auto industry today wouldn't exist as it does without trade. We need trade. We need to position ourselves globally. We need to have exports and then, of course, we need imports as well. So we're all in favour of expanding trade. We're also very much in favour of diversifying our exports away from the U.S. market, where we've put so many of our eggs in the past.

We need to be exporting to those high-growth markets, but with respect to the proposals we've put forward to the government for a way to expand trade, the volume of trade, but in a two-way direction, the government people threw up their hands and said, well, you want quantitative targets and that's not free trade. The things we're proposing the government is ruling out of bounds, and if they're all out of bounds, then what they want for a free trade agreement means more access to our market, no strings attached, and we will not support that. It has to be two-way and it has to be fair.

Mr. Dean Allison: As a last point, you're not so concerned by the fact that Korea is out negotiating other deals. That doesn't concern you as much as making sure, in your opinion, you have the right deal that will create this fairness going back and forth.

You just mentioned there are some concerns about how we have all our eggs in one basket with North America, or with the U.S. I say it again. Is this not a way, as we start looking at other agreements, that we could start chipping away at those non-tariff barriers, all these kinds of things? I would hope that's what our government is trying to work towards, so that we could start moving some of our goods in there.

Dr. Jim Stanford: I'd say Korea is the wrong place to start, if that's our strategy. Korea is a country that's a demonstrated export powerhouse. They have a complete imbalance already in automotive trade with Canada, and putting down the tariffs on both sides with no other strings attached is clearly going to hurt us more than it's going to help us.

If we want to use trade agreements to try to diversify our exports away from the U.S., it would be important to start with countries that don't have a strong auto industry, to begin with. For example, there are lots of countries in the Middle East that are significant importers of vehicles. We could negotiate more bilateral trade with those countries with less risk to our own industries. The fact that we're starting this strategy with Korea suggests we didn't think it through before we went down that road.

• (1720)

Mr. Mark Nantais: We have to ask ourselves, with regard to the net gains we're going to get from this, what are they worth against the net losses, which are much greater here, as far as we can see. We really do have to ask ourselves whether we are dancing with the right partner here.

Mr. Dean Allison: That's fine.

The Chair: Okay, *c'est tout*?

I think we can probably do another quick round. I'm sorry to take the time of the witnesses with this, but just for clarification, I have two points. One, we have gone past 5:15 in any event, so I think we have presumed that we'll deal with the motion that was on the floor at a future meeting. We can carry on for another quick round.

Also for clarification, there seems to be some question as to whether the House will be sitting or not on Thursday. We have arranged for witnesses to come. I think there is general consensus among the committee that regardless of whether the House adjourns, we will meet on Thursday.

Mr. John Maloney: Would we be able to meet at an hour other than 3:30?

The Chair: If the House doesn't adjourn till Thursday afternoon, then we'll meet here. If it adjourns tonight or Wednesday, we might have to rethink that.

Mr. Sukh Dhaliwal: We still will meet on Thursday, right?

The Chair: Yes, we're going to meet on Thursday.

Okay, we have time for another quick round.

Mr. Bains, do you have some questions for these witnesses?

Hon. Navdeep Bains: Absolutely, Chair. Thank you very much.

I want to thank the witnesses again, because you've done, in my opinion, a justice to come here and answer some of these questions. You've heard a difference of opinion, and I think that's a healthy debate and an important one.

I just want to reiterate the fact that was mentioned, that there seems to be this misconception that, specifically, people who raise questions about this potential free trade agreement are anti-trade. That's not the case. The Liberal Party historically has signed many free trade agreements and represents free and fair trade. I think all of you have demonstrated that as well in your comments, that you support free trade and it's actually important for our Canadian manufacturers and workers. So I'm glad you put that on the record.

I do have a question. Today Mr. Cannan, earlier in his remarks, talked about some of the assumptions and some of the concerns that were alluded to with respect to some of the analysis done. I want your feedback on this. Would you have any suggestion or would you support the possibility of selecting someone we can all agree on, someone arm's-length, someone the government and some of the key stakeholders can agree on, who could conduct this analysis and put to rest some of these assumptions that are being raised, because they're deemed to be biased or one way? Do you have any recommendations of organizations or people that you would like to put forward, that you deem to be arm's-length, that could conduct a proper economic analysis and really look at it impartially and look at some of the nuts and bolts, specifically around job losses?

I think that's something that's being debated fairly intensely today, and I would like to hear your thoughts on that.

Mr. Gerald Fedchun: We don't have anyone right off the top of our heads, but I'm sure if we all got together we could come up with one. There is the Canadian Automotive Partnership Council, of which we are all members. The whole industry is a member, and the whole industry right now is not in favour of an agreement without the non-tariffs barriers removed. So we would work very hard and very quickly to come up with a couple of recommendations. We'll work through Christmas.

Hon. Navdeep Bains: Jim, have you ever proposed any names for an arm's-length, impartial person or organization that could conduct an analysis?

Dr. Jim Stanford: I haven't, Mr. Bains. I think that's a very intriguing possibility. Likewise, I'm sure there are a number of economists who have practical, hands-on experience, not just with the auto industry but the other affected industries, who we could recommend. So I'll start thinking about that immediately.

Hon. Navdeep Bains: I think the average Canadian, specifically people who are paying attention to this debate, will find it very confusing. They want to believe the government, but I believe, at the same time, some of the analysis conducted by the department and the U of T professor has been put into question because the data used is a bit old—2005 data. Some of the assumptions, as mentioned by Jim earlier, about full employment, wages, and loyalty to domestic product are all fair questions and concerns, and if we can have somebody arm's-length to look into it, I think that's something this committee might recommend.

Our committee has been working very hard on this report, which should be submitted to the House very shortly, on our experiences in the Middle East with respect to free trade potential, and I'd ask you to look into that as well and give us your comments, if you can, going forward.

Thank you very much.

• (1725)

The Chair: I appreciate Mr. Bains' suggestion. It seems to have been well received. If that is possible, could I ask that any comments or suggestions you have be directed to the committee, and we'll distribute them on behalf of Mr. Bains to the committee?

Thank you.

We have time, I think, for one brief question.

Monsieur André.

[Translation]

Mr. Guy André: My two questions are for Mr. Stanford.

Last week, Minister Emerson indicated that it wasn't necessarily important in a bilateral agreement to have a trade surplus or deficit, and that an agreement was not evaluated according to those criteria.

What do you think of that?

In addition, negotiations with Korea began under the Liberal reign and are now continuing under the reign of the Conservatives. In your opinion, has there been a change of attitude or philosophy in these negotiations?

[English]

Dr. Jim Stanford: On the first, on whether there is a trade surplus or a trade deficit, I think that's a very important question. In the rarefied world of the computable general equilibrium models, Mr. Emerson is correct: if you assume that all factors will eventually be fully employed and that your country is inherently competitive at producing whatever it is you do relatively best, then he's quite right, you'll have surpluses with some countries, deficits with others, and on the whole you'll be more productive and better off.

The problem is that isn't the world that we inhabit. Not all factors are produced. Competitiveness matters. You have to be competitive on actual cost grounds in order to successfully produce something

and export it. In that world, trade surpluses and deficits do matter, and we see that in the auto industry today incredibly.

In the late 1990s we had a trade surplus in automotive products of \$15 billion, we were an incredible success story. Suddenly that has evaporated, and this year we will have an aggregate trade deficit in automotive products of \$8 billion, and that directly corresponds to the loss of 20,000 to 25,000 well-paid auto jobs because of that trade deficit. A deal with Korea, even according to the government's own studies, will exaggerate and make worse that automotive trade deficit.

In the real world, surpluses and deficits do matter, and how you perform in total is based on how you perform with each one of your trading partners.

In terms of the difference in approach between the two governments—between the Liberals, where it started, and the Conservatives today—I have sensed, if you like, a greater determination, or I'd almost call it bull-headedness, under the current government to try to reach an agreement at all costs so that they can hold it up and say, "Look, we have a foreign policy achievement here."

That's what concerns me, that this is being driven by political motives rather than what's actually best for our economy.

Mr. Gerald Fedchun: I haven't noticed any difference in the two governments, and this is one of the few times I'd disagree with you, Jim.

We've had difficulty, everyone seemed to want to move forward, and only the auto industry has really been screaming that this is not a good deal until non-tariff barriers have been eliminated. That's been consistent.

Mr. Mark Nantais: If I may too, the reality around the world with essentially the collapse of the Doha Round has meant that many countries are now seeking more bilateral agreements. That is part of the reality. The question becomes how intent is this government on getting the deal signed for the right reasons, and we would submit that so far we haven't seen the right reasons or the right approach.

The Chair: Okay. We do have Mr. Epp.

I'm sorry, I went out of line. He was on the list ahead of Mr. André, so we'll let Mr. Epp wrap it up.

We'll have a quick round of questions.

Mr. Ken Epp: Thank you very much.

I have a fairly quick question that has to do with the negotiations that Korea has engaged in with other countries. According to my notes, they have completed an agreement with the United States. I wonder if there are any consequences of the fact that Korea has a deal with the U.S. but does not yet have an agreement with Canada.

Are there any consequences to that with respect to our trade balance?

Mr. Gerald Fedchun: All of our political cohorts say that deal will not be ratified in the U.S.; it's simply not going to happen. And I'll live and die by my cohorts in the U.S.

• (1730)

Mr. Ken Epp: Okay.

Dr. Stanford, do you have any comment on that as well?

Dr. Jim Stanford: Likewise, sir, as we discussed earlier this afternoon, the agreement has not been ratified. Politically, it doesn't look like it will be ratified. But at any rate, the Americans got a better deal than it looks like Canada will be able to get, even though the implications for their auto industry are less severe than they would be for our industry.

So for all four reasons, the fact that there's a tentative deal sitting on the shelf should in no way be relevant to our trying to push forward to reach a deal here.

Mr. Ken Epp: Okay.

Thank you very much, Mr. Chair.

Mr. Mark Nantais: I agree. We're not concerned that Korea is pursuing other agreements with other countries. They're in the midst of it with the European Union right now. It's interesting that the European Union is having the same problem as it relates to their auto industry. Their government, however, is standing out publically supporting their auto industry and trying to address the very concerns that we seem to be incurring here, but doing it much more aggressively in support of their industry.

The Chair: Okay. Thank you.

Thank you, Mr. Epp.

And all of you. I appreciated today. It was good.

We will, unless the House adjourns tomorrow, meet again on Thursday.

I have a couple of quick points of order, I think.

Mr. Bains.

Hon. Navdeep Bains: Have we run out of time?

The Chair: We're out of time.

Mr. Cannan.

Mr. Ron Cannan: I just wanted to apologize if I offended anybody. I was really personally offended with the comments of my colleague, but I take my job very seriously and work very hard and it wasn't meant to offend anybody. So I apologize.

The Chair: I'm sure there are some pretty thick skins around the table, and I was just frankly appreciating your courtesy to not take the time of the committee by having your discussion at the table. You were prepared to move away from the table to continue the discussion. So we'll leave it at that, with that interpretation.

Gentlemen, thank you again.

The meeting is adjourned.

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

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

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

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

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