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Mr. Lee Richardson

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• (1535)

[*English*]

The Chair (Mr. Lee Richardson (Calgary Centre, CPC)): We are prepared to begin the nineteenth meeting for this session of the Standing Committee on International Trade.

We are going to open our discussion today with the free trade agreement between Canada and the states of the European Free Trade Association—that's Iceland, Liechtenstein, Norway, and Switzerland. We have basic parameters for that discussion, and to begin that investigation, we're asking the department to provide some background today on that agreement.

Let me say we're going to reserve some time at the end of the meeting for committee business, so I'd like to wrap this up no later than 5:15, if it goes that long.

We'll begin, and first of all I'm going to introduce our witnesses today. We have the director general of bilateral and regional trade policy, David Plunkett. David will be opening with his comments in just a moment. We have Aaron Fowler, who is the deputy director of bilateral market access; and Ton Zuijdwijk, general counsel, trade law bureau. Also, we have Frédéric Seppey from the Department of Agriculture and Agri-Food. He is the executive director, strategic trade policy.

The process I think we've agreed on is that Mr. Plunkett will begin with an opening statement and then we'll open it to questions by the members of the committee. The questions could be addressed to any of our witnesses, or Mr. Plunkett, you might direct traffic there by passing them on, if you care to do that.

I'll let you begin, Mr. Plunkett.

[*Translation*]

Mr. David Plunkett (Director General, Bilateral and Regional Trade Policy, Department of Foreign Affairs and International Trade): Mr. Chairman and Honourable Members of the Committee, thank you very much for allowing me the opportunity to provide you with an overview of our free trade agreement with the member states of the European Free Trade Association — Iceland, Liechtenstein, Norway and Switzerland.

[*English*]

On January 26, 2008, Minister Emerson signed Canada's first free trade agreement in over six years, and the first such agreement with European countries. The Canada-EFTA free trade agreement, which I'll hereafter refer to as EFTA or the CEFTA, is also the first treaty to be tabled in Parliament for 21 sitting days under the new treaties in Parliament process. The government will be able to introduce implementing legislation once these 21 sitting days have elapsed. The intention is to implement the agreement by January 1, 2009.

Canadian exporters and producers are expected to benefit considerably through the reduction and elimination of tariffs under CEFTA. Specific benefits include the elimination of duties on all non-agricultural goods, the elimination or reduction of tariffs on selected agricultural products, the elimination of the EFTA countries' agricultural export subsidies for products covered by the free trade agreement, and a level playing field with the European Union exporters in EFTA markets with respect to tariffs on a significant number of agrifood products. These are set out in annex G.

Iceland, Liechtenstein, Norway, and Switzerland are sophisticated and wealthy economies driven by technological innovation. Together, they offer huge market potential for Canadian firms. In fact, our economic links to these four countries are already well entrenched. CEFTA will build on this success. It will provide Canadian business and investors with access to some of the wealthiest and most sophisticated economies in the world, as well as a platform to tap into European value change.

[*Translation*]

The free trade agreement with the European Free Trade Association (EFTA) is the outcome of lengthy negotiations that proceeded in tandem with extensive stakeholder consultations, and thus delivers benefits reflective of the interests of Canadians. Notably, several Canadian agriculture exports will enter EFTA markets duty free while others will receive a margin of preference, with immediate benefits of 5 million dollars in annual duty savings on Canadian agricultural exports. Furthermore, the free-trade agreement provides for the immediate elimination of duties on all non-agricultural goods, the only exception being Canadian ship tariffs.

• (1540)

[*English*]

The CEFTA will give Canada advantages in EFTA markets ahead of the United States and will put us on an equal footing with countries that already have free trade agreements with the EFTA states, including the European Union, Mexico, Chile, and Korea. The EFTA states are already a significant economic partner and include some of the wealthiest and most sophisticated markets in the world, ranking among countries with the highest GDP per capita in the world.

Taken as one, the EFTA countries are the world's fourteenth largest merchandise trader and were Canada's fifth-largest merchandise export destination in 2007. They're closely integrated into EU markets through their membership in the European Economic Area; thus CEFTA will allow Canadian companies to expand commercial ties both with the EFTA countries themselves and with the European Union more broadly.

Two-way non-agricultural merchandise trade in 2007 was valued at $12.6 billion, with Canadian non-agricultural exports at $5.1 billion. Canada exported agrifood products worth more than $101 million to EFTA countries, while importing approximately $121 million. In addition, two-way investment stocks reached $24 billion in 2006.

Norway saw the second largest growth globally in Canadian exports last year in dollar terms. Also in 2007, Canadian merchandise exports to Switzerland grew by 35.6%. In fact, Canada exported more to the EFTA countries than to the so-called South America 10—which is Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela—combined. The implementation of CEFTA will build significantly on these already impressive numbers.

[*Translation*]

Negotiations began in 1998. Canadian negotiators consulted extensively with both industry and provincial and territorial stakeholders to ensure that their concerns and interests were fully understood and taken into consideration during the negotiations. This initiative was supported by a broad cross-section of Canadian stakeholders.

In particular, government officials consulted extensively with Canadian marine industry stakeholders throughout the negotiations and explored with industry representatives how shipbuilding sensitivities could best be addressed in the negotiations.

[*English*]

CEFTA is a first-generation agreement that is primarily focused on the liberalization of trade in goods: non-agricultural goods and various agricultural products. Its coverage could be expanded later to other areas, including services and investment.

It consists of four linked agreements: a main free trade agreement and three bilateral agreements on agriculture signed with Norway, Iceland, and Switzerland respectively. Switzerland and Liechtenstein have a customs union, and therefore the agreement with Switzerland covers both. These four agreements together operate to establish a free trade area.

In the preamble, parties commit to sustainable development, the mutual supportiveness of trade and the environment, and respect for labour rights. And they reaffirm their commitment to existing international obligations such as the WTO, the Universal Declaration of Human Rights, and the ILO Fundamental Principles and Rights at Work.

Other important provisions, such as regular safeguards, anti-dumping, countervail, and so on, continue to be addressed under the WTO.

Our cultural exemption is maintained under this agreement.

Several agricultural exports will enter EFTA duty free, while others will receive a margin of preference. Exports of processed agricultural products from Canada covered by the agreement will now face the same tariffs as those benefiting the European Union.

As I've said, it's estimated that the immediate benefits accruing from the tariff reductions will result in over $5 million in annual duty savings on Canadian agricultural exports. The FTA will also create new market opportunities for Canadian products not yet being exported to these countries.

I should note that Canadian supply-managed programs are maintained under this EFTA and were exempted. Mr. Seppey could respond to any detailed questions on agriculture, as the committee wishes.

With respect to non-agricultural products, CEFTA provides for the immediate elimination of duties on almost all non-agricultural goods, the only exception being Canadian ship tariffs.

Canadian business will also benefit from more competitively priced production inputs resulting from the elimination of Canadian tariffs.

While the benefits of tariff reduction under CEFTA will likely be less evident on the industrial side, given that the average tariffs are already quite low, there will be new opportunities arising from this agreement for Canadian exporters in a number of industrial sectors. For example, for Canadian exports to Iceland, which currently face relatively high tariff rates, benefits are expected in the areas of prefabricated buildings, cathode ray tubes, steel structures, aluminum structures, and doors and windows.

For Canadian exports to Switzerland, export products that currently face relatively high tariffs include cosmetics, aluminum bars, tufted carpets, and some apparel items.

It's also notable that 39% of all non-agricultural tariff lines in the Swiss customs union have tariff rates of 2% or less. While not a significant financial burden, these numerous small tariffs impose an administrative burden on Canadian exporters that will be eliminated under the FTA.

For exports to Norway, apparel is the only dutiable industrial sector. However, Canadian firms also have the capacity to export a number of non-agricultural products that would face a tariff in Norway, such as fish fats and oils for use in animal feed.

Let me turn to ships, because I know there have been some concerns raised on this particular file. In response to the concerns expressed by Canada's shipbuilding industry, the CEFTA includes the following ship-specific provisions.

First, there will be a 15-year phase-out for Canada's most sensitive shipbuilding products, which is, I would note, the longest phase-out Canada has ever negotiated in an FTA. Second, there will be a 10-year phase-out on top of that for other sensitive shipbuilding products. Third, there will be a bridge period of three years, as part of both these phase-out periods, during which tariffs will be maintained at the MFN level. Finally, there will be special provisions on vessels repaired and altered in EFTA countries such that tariffs will apply upon their re-entry into Canada in accordance with the tariff phase-out schedule.

The agreement also includes rules of origin for ships that were renegotiated in Canada's favour. And there is no obligation to modify the government's buy-Canada procurement policy for ships.

Some stakeholders and others have claimed that Norway's shipbuilding industry benefits from direct government support. This is no longer the case. Norway advised the WTO that as of March 2005, they no longer provide such subsidies, and we are not aware of any evidence to the contrary.

● (1545)

In addition, Canadian officials worked throughout the negotiations to ensure that to the greatest extent possible, stakeholder interests and concerns were taken into consideration in developing Canadian negotiating positions. We obviously will continue to monitor the subsidy situation in Norway.

[*Translation*]

The free trade agreement establishes a joint committee, consisting of representatives of Canada and the EFTA states, and a subcommittee on rules of origin and trade in goods. The joint committee may establish additional subcommittees and working groups.

The mandate of the joint committee includes the supervision of the implementation of the free trade agreement, overseeing the further elaboration of the agreement and the supervision of the work of all subcommittees and working groups established under the agreement. The joint committee may also serve as a forum to try to resolve disputes before the dispute settlement mechanisms of Chapter VIII are employed.

[*English*]

Finally, the dispute settlement chapter applies to all provisions of the FTA except those that have been explicitly excluded. It has been incorporated and made part of the bilateral agreements on agriculture. This means that the bilateral agreements are equally subject to the binding dispute settlement. The dispute settlement chapter follows the usual sequence of consultations between the parties that have a disagreement; the establishment of an arbitral tribunal to adjudicate any dispute that was not resolved through consultations; and proceedings before the arbitral tribunal, resulting in a report by the tribunal containing conclusions regarding the consistency or inconsistency of a proposed or actual measure with the FTA.

Mr. Chairman, I will end my comments here. Thank you for allowing us to provide a brief overview of the CEFTA. I welcome questions from you or honourable members of this committee. Either I or my colleagues will do our best to answer the questions that are posed.

Thank you.

● (1550)

The Chair: Thank you, Mr. Plunkett.

We'll begin this first round of questioning with seven minutes each.

Mr. Bains, you may begin.

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

I'd like to thank the department officials for coming before us here in committee and providing us with their opening remarks. Again, I thank you for your cooperation in the past. You've been very accessible when we've had questions and you've helped us to understand the agreement in a fair amount of detail. We appreciate that very much.

In the past, we have talked about this in committee and in private, and this particular debate around EFTA has been going on for quite some time, prior to my coming to the House of Commons in 2004.

My first question has to do with—and you mentioned in your presentation—the fact that this agreement allows better access. But we also recognize that this is a generation one agreement, where it's fairly limited. In my opinion, with these mature and developed countries that we are dealing with under CEFTA, there's a lot to be gained through the service side of it as well.

My question to you is, how much do we lose from not engaging the service component, and have we done any type of economic assessments or analysis to identify what opportunities have been lost because this is a generation one type of agreement?

Mr. David Plunkett: Thank you.

Let me put in context why it's largely a generation one agreement. This agreement stems back to 1998, and it was one of the early free trade agreements that were made at the time, so there was an extended period. I think I'm the seventh or eighth chief negotiator, so this has a long history along the way. There may be instances where I just may not be aware of some of the details here.

At the time this was started, I think the parties involved had decided that, given the lay of the land at the time, we would make an effort to have a goods-only treaty with areas around it. My understanding is that it was felt that, for either side, it was not worth pursuing the services and investment at the time. Fast-forward a few years and we hit a road jam, and the negotiations lay dormant for quite some time as we were looking for ways to proceed. In the second half of 2006, we were continuing to talk, because this was an ongoing bilateral issue with us and the four parties—

Hon. Navdeep Bains: I'm sorry to interrupt, but just quickly, was the main sticking point in those discussions shipbuilding? That's one clarification, because you're giving the timeline. What was the issue on which the hesitations occurred and the reason the agreement wasn't signed? What was the key area of it?

Mr. David Plunkett: The major issue that was hanging up the negotiations for all that time was ships.

Hon. Navdeep Bains: Just along those lines, you indicated in your opening remarks that Norway—which is a country we're very concerned about because the subsidies in their program allowed the shipbuilders not only to become competitive but to gain an added advantage in the international community—indicated in March 2005 that they no longer had a subsidy program. Subsequent to that, I believe the ambassador came before committee and reiterated the same remarks here.

My concern is that if a country subsidizes and continues to pump money into a particular sector—in this case we have shipbuilders—and allows them to purchase equipment, gain synergies and efficiencies, and really gain a competitive advantage to market access, and then says they want to do free trade and they want a level playing field, is that really levelling the playing field? A lot of the concern shipbuilders have presently is specifically with a country such as Norway. Up until 2005 they heavily subsidized the shipbuilding sector, and now that they are at an advantage, they want a level playing field.

So the question I have is, do you genuinely believe—we've had many sticking points in the negotiations—that this particular issue has been addressed? You've talked about the tariff reduction, a phase-out of 15 years, and then again a bridge, another 10 years. Those have been mentioned as a means to address this issue. But do you think it's been sufficiently addressed, specifically vis-à-vis concerns that shipbuilders have expressed regarding Norway?

● (1555)

Mr. David Plunkett: Just for the record, as far as I'm aware, between 1995 and 2000 Norway, following EU regulations—because there is a link between Norway and the EU as a whole—allowed for two types of shipbuilding subsidies. One was indirect subsidies in the form of loans and guarantees compatible with the OECD understanding on export credits for ships. A second was direct subsidies for research and development in the shipbuilding sector. These programs expired in 2000. In the early part of 2000 a policy came in about a temporary defensive mechanism related to Korean subsidies.

Basically, those are the ones we are aware of. As I said, they have advised the WTO that they have walked away from these subsidies and have no intention to implement other programs to fund domestic production of ships.

I know where you're coming from—

Hon. Navdeep Bains: That's the point, yes.

Mr. David Plunkett: —but I would also note that, as I said earlier, as part of this process we have managed to negotiate the longest tariff phase-out for industrial products in history, up to 15 years. Whether or not all of these subsidy effects will be washed out over a period of time, it's impossible to know whether any of these subsidies are necessarily ending up in ships linked to our particular market. In any event, if you couple the up to 15 years plus the 10 years of negotiation itself, plus the year or so of the parliamentary process to get the agreement up and running, you are looking at more than 25 years of protection.

Will all the benefits of this limited number of subsidies be washed out, in the event that they happen to be associated with us? I can't say that every last component of them will be, but I think by this point it would be fairly minimal. That would be my view.

Hon. Navdeep Bains: You say it would be fairly minimal, but have you done any type of economic analysis or assessment to indicate the number of jobs that may be lost or the number of jobs that may be impacted? What is the scope of the shipbuilding industry in Canada, and how will this free trade agreement effectively change that scope on a going-forward basis, specifically with jobs and job losses—or even job gains, if that's the case?

Has that analysis been done? Has the economic impact assessment been done?

Mr. David Plunkett: We didn't do an economic analysis per se. Instead, we sat down and consulted with the industries, because it wasn't just the ship industries. We had thorough consultations with the industries throughout this period.

With respect to the shipbuilding industry per se, consultations had begun in the late 1990s. Since late 2005 we, along with our colleagues from Industry Canada and others, held roughly 12 consultation meetings with various shipbuilding industry representatives in various combinations and fora—together as a group with owners, builders, and others, as well as a lot of one-on-one or group discussions—trying to make sure we had a thorough sense of the concerns the industry had in this area.

Those concerns are reflected in annex F, which sets out the terms of the agreement in the ship areas and identifies which ones are eligible for the up-to-15-year phase-out and which ones are 10. We feel very confident that the consultation process we did gave us a very strong understanding of the concerns of the industry, of where their wiggle room was, and of what their long-term planning was as an industry.

● (1600)

The Chair: Thanks, Mr. Plunkett.

I want to clarify something I think you just said to Mr. Bains, and that is on the phase-out for the building of ships, the phase-out of Canada's most sensitive vessels: 15-year and 10-year phase-out on sensitive. Is that 25 altogether, or is it 15...?

Mr. David Plunkett: No, what I was saying is, if you add on top of that, from the moment we started the negotiations—

The Chair: I see. Okay.

Mr. David Plunkett: —then you are looking at effectively more than 25 years from the point we first started to look at this to when the implementation would be complete.

The Chair: I'm sorry, I was just confusing the numbers. Thank you.

Monsieur Cardin.

[*Translation*]

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

Welcome, gentlemen.

I would like to follow up on the shipbuilding industry. The 10 to 15-year period, if we subtract the three-year period where nothing will change, is really only of 7 to 12 years. You say this will allow the shipbuilding industry, both in Canada and in Quebec, enough time to adjust.

Under the agreement that you negotiated and in view of the potential impact in a rather short period of time — 10 or 15 years is relatively short term — would it be possible for the government to take measures to help the industry to modernize, to implement technological innovations and to take advantage of this adjustment period in order to become competitive on the international market and in the countries covered by the agreement?

[*English*]

Mr. David Plunkett: With respect to the first part of your question, just so it's clear, for the most sensitive—which are things like ferries, cruise ships, offshore supply ships, and lakers—if you look at annex F, you will see a table, and these are all referred to as B15. For those products that are covered by B15, the tariffs shall be gradually eliminated, in 13 equal annual reductions, beginning three years after the date of entry into force of the agreement. In this case, 15 years after the entry into force, the customs duties would be completely eliminated.

Likewise for B10, it will be eight equal annual reductions, beginning three years after the date of entry. Therefore, 10 years after the entry into force, you'd have the complete elimination.

With respect to your comment about whether this is a relatively short period of time, as I said, this is certainly, by far, the longest that we've ever had in a free trade agreement. If you look at other agreements, including WTO or whatever, you will see that 15 years certainly ranks right up there as a significant amount of protection, from that perspective.

The other side of your question relates more to the policies that the government is involved with, with respect to the domestic shipbuilding policy, and I think this would be better asked of our colleagues at Industry Canada.

There are issues or things out there, such as the renewal of the structured financing facility, and in addition, the government announced in its latest budget that it will be buying a new polar icebreaker. But in terms of the extent of the various elements that you may be looking at, I would recommend that you get in touch with our colleagues at Industry Canada, because they're best placed to give you a thorough assessment of what else is out there. Our focus is, frankly, on the terms of these agreements, and they may be doing things that we're just not even aware of.

● (1605)

[*Translation*]

Mr. Serge Cardin: If I understand what you are saying, while you were negotiating a free trade agreement and in particular the adjustment periods, the phase-out or elimination of tariffs, you had no formal discussion with Industry Canada in order to determine the potential impact of specific negotiations on our industry.

Would it not be normal to take steps to understand the situation of our industry in order to know what terms to negotiate?

[*English*]

Mr. David Plunkett: No, far from it. During the many consultations that we held with the industry, Industry Canada was very much part of that. They were also party to the negotiations. They were part of the overall team. There is a big team effort here.

If you are looking for the details of the information in terms of what the government is doing for this particular sector, all I'm suggesting is that the people who are best placed to answer your questions there are colleagues from Industry Canada. But I can assure you that I have been in close contact with them throughout this process, for the obvious reasons that you're suggesting. You obviously can't be rushing off without keeping them in close contact.

[*Translation*]

Mr. Serge Cardin: When we deal with potential free trade agreements, the committee asks questions as to how people generally view the negotiations, which industry will benefit and which industry might potentially be negatively impacted. The answers we get are that it is difficult to anticipate since we do not know what the precise terms of the agreement will be.

In this case, the agreement was signed in January. Did your group, or did other organizations, start to make assessments of the quality and the global value of the negotiated terms as well as of the impact they might have on the Canadian economy?

[*English*]

Mr. David Plunkett: In terms of trying to choose winners and losers for a particular trade agreement, this is a very difficult question to answer, because often what we do as negotiators is try to set what looks to be a very positive framework, sort of rules of the game for industries to work with. Obviously we try to make them as positive as possible for our Canadian companies.

But as my deputy minister said this morning in a different context, business does business; governments don't do business. We can set as much of a positive framework as we can, but it really is up to business to try to take advantage of what is there. They will put their assessment through variables that are distinct to their own particular sector and company.

In the course of my career, I have been involved with a number of negotiations where I have heard Canadian companies or Canadian sectors express strong concerns that if the government of the day were to liberalize or make a move in a particular sector, that would be the end of that particular industry. Those industries are very much alive and well, and in fact they're doing better now than ever before. Even industries that themselves thought a change of the policy framework would be problematic for them would now admit that, in retrospect, that did not prove to be the case. Again it gets back to the question, a very difficult question, of trying to identify exactly who might win and exactly who might lose, because companies are very adept at modifying their behaviour to take advantage of circumstances.

In tariff negotiations, often companies that will urge you to retain a tariff as high as possible for as long as possible, once they see the writing is on the wall and the tariff is coming down, are among the first to say, “Bring it down to zero because it's not going to help us any more and we might as well adjust. We've adjusted our business plan and our future accordingly.”

It's a bit of a mug's game to try to get into that sort of situation. On a general basis, looking at the impact of the economy more generally, given the dominance of the U.S. in our market—and I'm not an economist, so I'm wandering into some fields here that I'm not all that comfortable with—my understanding is that sometimes, given the size of these markets involved, the potential impact for the Canadian economy as a whole will be nil or point nil, nil, nil, whatever the exact number is. That's why I think it's more important for us to sit and talk to individual companies or individual sectors to find out what the potential is going to be for their particular needs, because any macro numbers, whether they're credible or not, are probably not going to be good enough in terms of giving you a real sense of what the impact for a particular industry or sector might be.

That's why we find it very important to go in and talk to industries, to consult as often as we can to make sure we're getting the facts from the people who are at the coal face in these sectors.

● (1610)

The Chair: Thank you, Mr. Plunkett.

Mr. Julian.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you very much for coming here today. I'll just start with a couple of quick housekeeping questions.

In your presentation, Mr. Plunkett, you said the government will be able to introduce implementing legislation once these 21 sitting days have elapsed. Is the department preparing implementing legislation for the EFTA agreement?

Mr. David Plunkett: Ton, you're closer to this than I am.

Mr. Ton Zuijdwijk (General Counsel, Trade Law Bureau, Department of Foreign Affairs and International Trade): Yes, we're currently working on implementing legislation. Of course, since there is legislation involved for which the Department of Finance and the Canadian Border Services Agency are responsible, we're preparing the legislation in cooperation with those departments.

Mr. Peter Julian: And the projected date for that to be tabled in the House would be following the 21 sitting days?

Mr. Ton Zuijdwijk: That is my understanding.

Mr. Peter Julian: Thank you.

Second, around mineral products, I understand about 60% of our current exports are nickel. We also ship gold, copper, and cobalt. What overall percentage of semi-processed or non-processed mineral products is exported to the EFTA countries?

Mr. David Plunkett: Unless one of my colleagues can find that quickly, I may have to get back to you on that exact number.

Mr. Peter Julian: Okay. Thank you.

I'd like to move to shipbuilding. We're going to hear from witnesses on Wednesday, I believe, about the shipbuilding industry. I have three questions to start.

In terms of the consultations with the shipbuilding industry, did any of the representatives, either from the workers or from shipbuilding companies, tell the government not to go ahead with the EFTA agreement? That's my first question.

Second, I'd like you to explain annex E, paragraph 5, “For the tariff lines designated (*), vessels of dimensions exceeding the length of 294.13 m and a beam of 32.31 m shall be accorded duty-free access in Canada upon the date of entry into force of this Agreement”.

My third question on the shipbuilding industry is the issue around the Norwegian subsidies to domestic shipbuilding. Is there anything in the agreement that prohibits those subsidies?

Those are my three questions to start.

● (1615)

Mr. David Plunkett: With respect to the issue of consultations, certainly the ones I was involved in—but as I said, we did a range of them, and some of these will have gone back 10 years—I'm not sure anybody, even in this room, was involved in some of the early ones. But certainly the ones I was involved in, were there people who were telling us to go away and cease and desist? Yes. Other people were telling us to get rid of this 25% tariff as quickly as possible because it was proving to be a detriment to their business operation. And there were people in between saying they could live with it. They didn't mind our getting rid of it, but we should phase it out over a certain period of time.

So as I said, what we needed to do, working as a team including our colleagues from Industry Canada, was listen to the various voices involved with this and get a good sense of what they were thinking and try to find a way through this very tricky file. But if there's a unanimous voice going one way, frankly, that's easier to deal with than when the voices are coming from all sides, because then you have to sit down and try to see what makes the most sense from a policy perspective that might not be perfect to anybody but will give you a satisfactory way of working your way through a difficult file.

Mr. Peter Julian: Now that we have the treaty before us, would you be prepared to provide the results of those consultations to the committee?

Mr. David Plunkett: I'll have to take that question under advisement and see, because some are oral discussions. Let us get back to you on that.

Mr. Peter Julian: Okay.

Second question?

Mr. David Plunkett: My colleague Aaron can speak to the panamax issue, which is what you're referring to.

Mr. Aaron Fowler (Deputy Director, Bilateral Market Access, Department of Foreign Affairs and International Trade): As David has just made reference to, those specifications correspond to what are known as post-panamax classifications for ships. It's a measurement established by the Panama Canal Authority and it essentially sets the limit for the size of ship that can navigate the canal. No Canadian shipyards claim to be able to lay down a hull in excess of the post-panamax measurements. That's the reason this type of ship would go to zero duty immediately upon entry into force of the agreement, simply because it wouldn't be competing with any Canadian shipbuilder.

Mr. Peter Julian: Well, that applies to existing capacity. But what it does is stop the ability of Canadian shipyards to expand to that capacity.

But thank you for explaining that.

The third is on the Norwegian subsidies for their domestic shipbuilding.

Mr. David Plunkett: As far as I can recall, there are no specific provisions related to prohibiting Norwegian subsidies in this area. That said, if you look at the back end of the treaty, where you get into all the institutional and dispute settlement provisions, obviously if we were to come across an activity, be it a subsidy, such as what you're suggesting, or anything, we have the capability of using the institutional provisions to raise this and pursue it. At that point, we would see what the reaction was and decide how to address it, as needed.

Keep in mind that the Norwegians have also told us, and I think have said in the WTO context, that they have stopped doing this and have no intention of re-engaging with them.

Mr. Peter Julian: You understand my point. On dispute settlement, if there's nothing in the agreement that actually prohibits that support, then it is highly unlikely that we could use a dispute settlement mechanism to enforce something that's not in the treaty.

Thank you for that.

Mr. David Plunkett: I think it's important to also recognize that when you go into a treaty, you go into it with a series of understandings and a broad sense of what you expect. If the circumstances were to change dramatically, which would in effect negate a significant element of this, we would obviously have to take that into account in any future steps. But we're talking hypothetically here. We have the means to deal with this or any other issue not necessarily covered in the agreement that we think is problematic for the overall balance of the agreement.

● (1620)

Mr. Peter Julian: I still reiterate my point. It would be difficult to use dispute settlement for something that's not covered in the agreement. That's the point I'm making.

I'd like to move on.

Mr. David Plunkett: Can I ask our lawyers?

Mr. Peter Julian: Because I only have a few minutes left, I'd like to move on to the agricultural provision.

The Chair: I'd like to hear the answer.

Mr. Ton Zuijdwijk: Let me add that article 17 of the agreement deals with subsidies and makes it clear that our WTO rights continue to apply. So if there were subsidies, Canada would be entitled, under the terms of the WTO, to impose countervailing measures and to use the remedies under the WTO.

Mr. Peter Julian: Yes, I understand that. But we'll stress the point for the third time: there's nothing in the treaty that prohibits those domestic subsidies. That's the point I'm making, and that's for the record.

Thank you, Mr. Chair, for seeking that clarification.

I'd like to come now to the supply management programs. Your deck—and it is helpful, thank you for providing it—says that Canadian supply management programs are maintained. What exactly do you mean by that?

Mr. Frédéric Seppey (Excutive Director, Strategic Trade Policy Division, Department of Agriculture and Agri-Food): We mean that an essential element of the supply management system is the predictability of imports. That is achieved by having low duty apply on the volume coming in that is within the access commitment—which is the tariff quota we have in place—and having very high tariffs on the volume coming in that is beyond this tariff quota.

In these negotiations, the over-access tariffs are not affected. We maintain our over-access tariff on all the supply-managed products. Hence, we are maintaining the effectiveness of import control for supply-managed goods.

Mr. Peter Julian: Thank you.

Now, looking through the agricultural chapters, the three agricultural agreements, there are supply-managed sectors for which there are tariff reductions. Could you lead us through how that would work if we're reducing tariffs on the supply-managed areas, such as dairy products and poultry products? We are provided more access on things like cloves and coconuts and olives. I'm not sure which part of Canada they come from, but we do have some tariff access into Europe. How would that work for the supply-managed sector, then, if we're lowering the tariffs?

Could you lead us through that, please?

Mr. Frédéric Seppey: I will give you the example of butter. In the agreement with Switzerland, we have undertaken to reduce our tariff on the imports coming in within the tariff quota, which is around 4,000 tonnes. Under the WTO, we have committed to allow up to 4,000 tonnes of butter into Canada at a low rate of duty.

The concession we have exchanged with Switzerland vis-à-vis the butter coming from Switzerland is that instead of applying a tariff of 7%, which is what we exchange with all the WTO members for up to 4,000 tonnes, we allow them to export their butter subject to no tariff. However, the over-access tariff—whatever amount is exported beyond the 4,000 tonnes—is still subject to a 299% tariff, and we are not, as a result of this agreement, allowing entry of butter beyond 4,000 tonnes at a low rate of duty.

So the 300% rate, which is in fact what is ensuring that we maintain supply management with respect to butter, is unaffected by this agreement.

Mr. Peter Julian: Do I have time for a quick final question?

The Chair: Well, you're at 12 minutes now. You may as well go for it.

Mr. Peter Julian: Thank you, Mr. Chair. I appreciate your patience.

Could you make the consultations held with the supply-managed sector, such as with the Dairy Farmers of Canada, available to committee?

● (1625)

Mr. Frédéric Seppey: These consultations largely took place in the course of meetings, and therefore there was no record of minutes. In the course of these negotiations, our negotiators, when they were facing a specific question, were often in direct communication with representatives of these organizations, so it was mainly taking place orally.

The Chair: I'm going to have to stop you there. Thank you for those questions and excellent responses.

We're going to move now to Mr. Allison.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): For 14 minutes? Thank you, Mr. Chair.

Mr. Plunkett, I think you mentioned that there had been seven or eight negotiators before you. How long have you been in the role as the chief negotiator for this deal?

Mr. David Plunkett: I returned to Ottawa from London, where I had been the senior trade commissioner, and took up my current post as director general for bilateral and regional trade policy in September 2006. One of the first jobs I took on, as part of the many things we have on the go right now—because we have a number of irons in the fire—is EFTA. I dabble in a lot of other things, but I was appointed chief negotiator at that stage. So it's since September 2006.

Mr. Dean Allison: Thank you. I want to congratulate you and put on the record that I think you people have delivered a good agreement that will help not only Canadian families but certainly Canadian industries.

A lot of times we forget that it is Canadian industries that actually employ Canadians, and that when those industries do well our citizens do well. I need to point out, because my good friend over at the NDP wants to always talk about the loss of manufacturing jobs—which we understand, but we also need to look at the fact that we've created, under this government, just in February alone, 43,000 new jobs, in the last year 361,000, and almost 800,000 new jobs since we became government—that I'm sure this agreement will go a long way to continuing that great growth.

The other thing I want point out to my friend in the NDP is that in February we were up almost 5%, and that is in terms of wage growth. I know the argument is always that we're losing manufacturing jobs and just creating low-paying jobs when we deal with trade agreements, etc. I'm not sure exactly how we could continue to see our hourly growth go up if we're losing all those high-paying jobs.

This is just a comment for the sake of the record, if we could add it.

I want to read some comments that have been made in the House. One member stated, “It is the same thing with the EFTA sellout where Liechtenstein outmanoeuvred, outnegotiated and outclassed this inept and incompetent government.” I take a bit of exception to that in terms of—

Mr. Peter Julian: Nice words.

Mr. Dean Allison: Chicken Little said that over there.

I wonder whether you could comment on the notion that we were in any way outnegotiated or outmanoeuvred or outclassed in this particular job. Do you have some comments for us?

Mr. David Plunkett: We have brilliant negotiators who had the foresight and the wisdom to come forward with an agreement that we believe is very beneficial to Canadian exporters and producers. I'm not sure how modest you want us to be in terms of responding to your question, but I don't believe we were in any way outnegotiated.

If you ask some of our trading partners, generally—not necessarily our EFTA partners here—our system is held in very high regard. We have some people who are held as highly competent individuals, one of whom, for example, is our ambassador in Geneva, who's chairing one of the most difficult negotiating groups in the World Trade Organization. The only way the system of 150 countries would ever put that much responsibility into the hands of an individual is if it thought the individual was competent.

So I don't think we have anything to be apologetic for, sir.

Mr. Dean Allison: Thank you very much.

I know this agreement was started almost nine or ten years ago. I realize you weren't there for all of it, but certainly for the sake of my understanding, why is it that something like this takes 10 years? Is it because we walked away for six? Could you talk a bit about the process in terms of trying to get to an agreement like this, either the complications or whether you have to walk away to negotiate certain things, and why almost nine or ten years? Would you see this happening in other agreements, and what would that depend on?

● (1630)

Mr. David Plunkett: Some negotiations are easier than others.

I'll contrast this with the one we announced the conclusion of at the same time as Minister Emerson formally signed the EFTA: the negotiations with Peru. On June 7, Minister Emerson announced the launch of negotiations with Peru. That one took five or six months to pull together, to conclude the negotiations.

We had other ones launched at the same time, and they are proving to be a bigger challenge. We're engaged with a number at various stages. With Korea, I think we're up to 13 rounds. There really is no one-size-fits-all. It very much depends on some of the issues in play.

This one stalled for five or six years largely because we could not find a way through the ship issue, which was fundamental for one side, and we didn't have any flexibility at the time. We struggled with how to deal with it, but it was there on the table and creative minds looked for ways to get around things. Fortunately, we found a solution that allowed us to bring it to a head.

When we start, there's no.... I could never tell you that we would be definitely finished on day *x*, because we're only one side of the negotiation. The other side may have its own reasons for stringing it out or speeding it up. That's out of our control.

Mr. Dean Allison: What you're suggesting is that part of the reason you stepped away from the deal was because of listening and consulting with the shipbuilding industry. You couldn't negotiate or you couldn't get what you thought would be beneficial for some of our builders. Is that part of it?

Mr. David Plunkett: Certainly, in all instances, we will only ever conclude a deal that we believe is good for Canada. If the terms of an agreement with whatever country.... It doesn't do us any good to bring home an agreement that's going to be ripped to shreds. It has to be one that we're proud of and that we feel does the job.

Mr. Dean Allison: Thank you very much.

The Chair: Thank you, Mr. Allison.

Mr. Temelkovski, seven minutes.

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

I'd like to ask a number of questions and then you can answer them, because I find we don't get to ask all our questions with all the answers that are coming through.

The Shipyard General Workers' representative testified to this committee that Canada is the only major seagoing country that has not had a strategic plan to guide its shipbuilding sector. In your opinion, is the absence of such an industrial policy act an obstacle in negotiations with EFTA?

Second, you mentioned earlier that there have not been any economic impact assessments done, and therefore this question may be easier to answer. In which sectors did Canadian exporters face the most restrictive tariffs in EFTA markets, and in which sectors do market access restrictions remain?

One of the chief advantages of a free trade agreement with EFTA is that there's a heavy degree of economic integration between EFTA and the EU. In your view, can Canadian business use this trade agreement to help access the EU market?

Finally, what prohibitions does the World Trade Organization impose on subsidies to shipbuilding, and what remedies are available if they are breached?

So there are four easy questions.

● (1635)

Mr. David Plunkett: I'll let Ton speak to the subsidy issue. And further to the discussion with Mr. Julian, I think we also have a bit more clarity of information here.

The major trading partner for EFTA is the EU. For the processed agricultural products covered in the agreement and set out in annex G, this will definitely give our exporters an advantage. An MFN “forward”, to use some jargon here, is that any time the EFTA countries would give a benefit to the EU, we would automatically gain that same benefit as part of the treaty. So we would hope that this would give some of our industries an advantage in that area.

In discussions of this agreement with some of our trade commissioners in the EFTA markets, in particular in Switzerland, they have noted that improved access to the EFTA market will give an opportunity for Canadian business to sort of trial-market products in a European country to see if they work. It could be in packaging or it could be in seeing whether the product connects with a European audience. If it works with Switzerland, then, given the similarities with other markets, it might embolden a Canadian exporter to take on a larger European market, such as the EU.

So I think there are commercial tangible and intangible benefits with respect to the EU. The other thing, obviously, is that you get into this whole concept of global value chains. You might be able to join up in a commercial activity that's part of a larger process. If it's either coming out of the EU towards Canada or vice versa, through the EFTA, you might find that there are opportunities to take advantage of there.

With respect to the industrial area in terms of economic impact....

I'm going to have to look for the number; I'm not sure where it is right now.

At any rate, the impact for the EFTA on the industrial side will probably be less than on the agricultural side. In large part, many of the industrial tariffs in these four countries were already relatively low. The products that we have identified are the ones that might have been facing tariffs....

Just a second, I can give you some exact numbers.

In Switzerland, 18% of non-agricultural tariff lines were duty-free; 70% in Iceland; and 94% in Norway. We're working with those numbers in terms of potential access.

In terms of the product range where we think there might be some benefits—some of these I've already mentioned—in Switzerland we're looking at cosmetics, aluminum bars, something called tufted carpets, and some apparel items.

With respect to Iceland, you have prefabricated buildings, cathode ray tubes, steel structures, aluminum structures, doors and windows, and cold-water shrimp.

Again, in Norway you have apparel, in part because so many of their duties were already at zero.

● (1640)

You really have to go through each of the products, and each industry, each sector, is going to have to look at this and make its own judgment as to how significant a difference this makes to its ability to compete in that particular market.

The final point I wrote down was your first point, which was linked to the whole shipbuilding policy more generally. As I said, I think I would suggest that those questions be posed to our colleagues in Industry Canada, because they know the shipbuilding framework against which we've been operating.

Mr. Lui Temelkovski: Thank you.

Mr. David Plunkett: I'm sorry, there was one specific question on the legal front, Ton, on the breach.

Mr. Ton Zuijdwijk: Yes. On the question of what Canada could do if, hypothetically, subsidies were reintroduced by Norway, I've already pointed out that Canada does reserve or maintain it's rights under the WTO. So that's clear.

In addition, we have built into the agreement the concept of non-violation, nullification, and impairment, which is a concept peculiar to trade law. This will allow Canada to bring an action against, hypothetically, Norway if this were to occur, because there was a clear understanding between the parties at the time the agreement was negotiated that Canada was going to reduce tariffs on ships and related items in return for Norway, in particular, not subsidizing. We built that specifically into article 29, paragraph 4, where reference is made to a benefit that reasonably could have been expected to accrue to Canada or any other party that is being nullified or impaired as a result of the application of any measure that is not inconsistent with the agreement.

So here we are beyond the written text. Canada could then take an action against Norway, and if successful, we could then expect that the Norwegian measure would be removed pursuant to article 30, paragraph 2, or that Canada would receive some other form of compensation.

This is to clarify that we are not without remedies under the agreement, if we were to get into this hypothetical situation.

Mr. Lui Temelkovski: Are some of these irritants difficult to spot —for instance, some subsidies to the shipbuilding industry by Norway? That's usually the problem, right, David?

Mr. David Plunkett: We have a highly developed, sophisticated Trade Commissioner Service that is in many countries around the world, but obviously in Oslo in this case. We have been in communication with them for the last couple of years on this very subject, because the one thing that was made very apparent to us during our many consultations with the industry is that they had a concern about this whole subsidy issue. We specifically went chasing our post and asked them to sniff into it as much as they could. There are obviously links to our colleagues in Geneva because of the WTO. As my colleague here reminded me, there are also links in terms of the OECD.

So we have a number of areas of people, including our sectoral specialists in our department and Industry Canada, who will keep an eye on this. Trust me, I have no doubt that if there were even a sniff of Norway introducing programs that people thought were offside, we would hear about it very quickly.

● (1645)

Mr. Lui Temelkovski: Thank you.

The Chair: Thank you, Mr. Temelkovski.

Monsieur André.

[*Translation*]

Mr. Guy André (Berthier—Maskinongé, BQ): Welcome. I have a few questions.

You know that the Davie shipyard was bought up by a Norwegian company that presently operates this shipyard here, in Quebec. Under this bilateral agreement, Davie could continue to operate and even expand, modernize and develop its market in North America. But under this agreement, the new company could also use its shipyards in Norway and simply consolidate all its production in Norway and continue to serve the North American market. In other words, it could close its shipyard in Canada and expand its operations in Norway.

Is this a possibility that you considered?

On another subject, you said there was protection for the supply managed sectors which are very important for Quebec and the rest of Canada. Does this agreement deal in any way with the imports of milk proteins? There has been a pretty major dispute with the United States in this regard. Is this protected under the agreement?

I am somewhat surprised to hear you say that the evaluation of the shipbuilding industry, in terms of job losses... Quebec has some pretty large companies in this sector: Verreault Navigation, Davie, etc. Has there been an assessment done by the shipbuilding industry or by the government, as was done for the Canada-Korea agreement? As you know, in the case of the Canada-Korea agreement, the automobile industry did a very comprehensive assessment of the impact that agreement could have on this sector. The government also did an assessment. We can get from Industry Canada the evaluations that were done on the impact of this agreement.

Has there been at least a summary assessment of the impact of this agreement on employment in the shipbuilding industry? You seem to say there was none. I reiterate that Davie could centralize its operations in Norway and close its shipyard in Quebec, or vice versa.

Mr. Frédéric Seppey: Thank you for this question.

With regard to milk protein concentrates, I can assure you that the agreement does not deal in any way with tariff line 3504, milk protein concentrates. Canada made sure that this tariff line was excluded from the negotiations. Canada did not undertake any obligations in this regard. Its obligations regarding milk protein concentrates are only governed by the WTO agreements. No other obligation has been added.

Mr. Guy André: It is not included in the agreement.

Mr. Frédéric Seppey: Yes, it is totally excluded.

Mr. Guy André: So it is not excluded.

Mr. Frédéric Seppey: It is excluded from the agreement.

Mr. Guy André: But there is the WTO agreement.

Mr. Frédéric Seppey: We are presently amending tariff concessions under the WTO in terms of those procedures governed by article 28. We are presently negotiating in order to establish a tariff quota. However, this free trade agreement does not cover these products. Consequently, a country like Switzerland, which is an important player in the milk protein concentrates market, for example, did not gain any new rights under this agreement. Like supply management, this was excluded form the negotiations and consequently the agreement does not change the terms of trade in this area.

Mr. Guy André: Thank you.

[*English*]

Mr. David Plunkett: On the question about the economic assessment, I am not aware that we have conducted a formal economic impact analysis of any specific sector in the course of this period. But as far as the ships area is concerned, we believe we understand very well the concerns of the industry. As I said earlier, this is one area where we consulted with the industry throughout the entire period, and certainly very extensively toward the end of the negotiations, to make sure we had a good sense of what was in play so we could take their concerns into account.

Davie is an interesting example that you've brought up. I stand to be corrected by my colleagues, but my understanding is that the shipyard in Davie was very close to going into receivership, or whatever one does with a shipyard when it's having difficulties. As a result of this Norwegian investment, they have recently reopened and have orders for three offshore vessels valued at approximately $410 million U.S. for delivery to a Norwegian firm beginning in late 2008.

While this agreement does not have any substantive provisions about investment, I think it's a very positive sign. It's a reflection of the state of the economy and the investment climate Canada offers that a company from offshore came in, saw an opportunity, and took advantage of it to keep the Davie yard up and operating. It's now certainly in better shape than it was before this investment.

I can't predict the long-term future of an investor; these are private sector decisions. But based on the facts I know, you have a positive step here that is keeping this yard very much alive and well, and I think that's good news for people.

● (1650)

[*Translation*]

Mr. Guy André: In your discussions with Davie, did you not get a sense that operations could be more centralized in Norway to make use... Did you see anything that would lead us to believe that this company might consolidate its operations in Norway? You have had discussions, you worked collaboratively and there has been close consultation between you and the shipbuilding companies of Quebec and Canada. Was there nothing that might lead us to conclude that this company will want to expand more in Norway or in Canada in order to develop its business?

[*English*]

Mr. David Plunkett: I was not party to any specific discussions about Davie's plans one way or another. But in reading the information I have here that my colleagues pulled together, if they're looking to produce offshore vessels at the yard in Quebec for delivery to a Norwegian firm, that seems to be good news for the firm. I don't know the details of this, because it's a private sector decision.

[*Translation*]

Mr. Guy André: I have one last question for you. Under this agreement, an adjustment period of 15 years was negotiated in order to allow our shipbuilding industry to adjust to the competition with Norway. If the government does not put into place programs to support and modernize our shipbuilding industry here, in Quebec and in Canada, do you believe this agreement could become futile if we do not make good use of those 15 years it provides?

[*English*]

Mr. David Plunkett: I think that sort of questioning is beyond my remit for this committee. I can tell you what we have agreed to, but you're starting to drift into some subject matter that I'm a bit uncomfortable trying to predict.

[*Translation*]

Mr. Guy André: But according to you we should make use of these 15 years to support our industry, to allow it to modernize and become more competitive in the overall market. This is the goal of this agreement.

● (1655)

[*English*]

Mr. David Plunkett: As I said, I can tell you that we have given, through the negotiations, an extremely generous transition period to the industry. I can also suggest that in terms of the broader context of the shipbuilding policy more generally, you would be best placed to talk to our colleagues in Industry Canada, who have a much more comprehensive understanding of the sector than I will ever have, and to hear how they see all of this fitting together.

The Chair: That's 10 minutes. Thank you, Monsieur Cardin.

Mr. Miller, you have 20 minutes.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thank you very much, Mr. Chairman.

Thank you to the witnesses for being here today. Regarding some of my questions on the shipbuilding industry, I certainly feel a lot better; and after hearing a lot of that, I'm sure the other witnesses will too.

Something that I think needs to be pointed out is that these negotiations have taken a period of time covered by three different governments. I think some of the critical comments made to the negotiating team are certainly off base.

I'd like to congratulate Mr. Plunkett and his team for the great job they are doing. Obviously they have nothing to gain by not getting the best deal possible for Canada. We can't go and cherry-pick industries; we have to get a deal that's good all the way around. And the more I delve into this, the more I think you've done a good job.

One area you touched on earlier was agricultural products. I believe it was Mr. Seppey who used butter as an example. I take it that most of the non-agricultural tariffs were reduced to zero, but that some agricultural products were maybe excluded from the negotiations altogether. I was wondering if you could give some examples on both sides of agricultural products that may have been taken out.

I don't know who wants to speak to that.

Mr. Seppey.

Mr. Frédéric Seppey: Thank you for your question, Mr. Miller.

Yes, there are a number. It's complex because in the area of agriculture, the negotiations resulted in a very curious structure. As Mr. Plunkett explained, there are three agreements governing trade in agriculture, and the concessions given to Canada by each of the EFTA countries differ. For example, Switzerland had an interest in getting more access to our cheese market, or better tariff treatment, I should say, of gruyère or emmenthal cheese. Well, the condition for them to get concessions from us within the in-quota rate—that is, the tariff rate applicable to the small volume that we allowed in—was that they would not grant export subsidies. While Switzerland was ready to constrain their cheese producers by not giving them export subsidies, Norway was not ready to do the same thing. Therefore, cheeses are covered in the agreement with Switzerland, but not in the one with Norway.

On the offensive side, or on exports—

Mr. Larry Miller: If I could stop you there, just to be clear on this, some products in this agreement—even though it's for a country —will then be exchangeable from country to country, but maybe not in another one. Was I clear on that?

Mr. Frédéric Seppey: Yes, that's correct, sir.

To give you an example on the other side—that is, items of export interest—it was very important for our exporters to Switzerland to get access on horsemeat and durum wheat. So we have worked hard to get concessions from Switzerland, for example, on those products. In Iceland, it was very important for our producers of frozen french fries in New Brunswick to get access. We managed to negotiate concessions with Iceland, where the tariff was cut by half from 76% to 46%.

So the gains in each of the countries vary. For example, in Switzerland, it's durum wheat and horsemeat that are the big winners. In Iceland, it's frozen french fries. In Norway, it is durum wheat and frozen blueberries, where there have been very high tariffs, but we have managed to obtain significant reductions.

● (1700)

Mr. Larry Miller: Overall, Mr. Seppey, would you say this was a real winner for Canadian agriculture?

Mr. Frédéric Seppey: I believe that in the area of agriculture it's a clear win for Canada, because we are one of the largest agricultural goods exporters in the world. Our only sensitivity on the agricultural side is very much in the supply management area.

We managed to exclude altogether all the over-quota, as I was explaining to Mr. Julian earlier; we have managed to exclude from the agreement all the concessions on the high supply-managed tariffs. On the rest we are ready to undertake significant concessions, and we managed to grant concessions to countries that have an interest in such things as chocolate and fruit jams, such as Switzerland. We managed to offer them good concessions.

On the other side, we managed to get concessions on products of key export interest to us, such as durum wheat and frozen french fries.

Mr. Larry Miller: That's good. I'm glad to see those safeguards were put in place for supply management. You mentioned dairy specifically, but I presume that also means chicken products, because that's also under supply management.

Mr. Frédéric Seppey: Absolutely, sir, yes. It covers chicken, turkey eggs, broiler hatching eggs, and dairy.

Mr. Larry Miller: Thank you very much.

Mr. Plunkett, I believe this is a question for you. What are some of the industries that the European countries named here wanted access to, but basically we weren't willing to negotiate? Could you talk on that a bit?

Mr. David Plunkett: Do you mean outside of agriculture?

Well, we are going to zero on everything immediately upon implementation, except for ships. On that point we had this lengthy discussion. That part of it is fairly straightforward.

If only just to help to explain to people, I'll mention that the tricky part of this is how we ended up with four agreements. As Frédéric said, part of that is because for what are called basic agricultural products—largely in the first 24 chapters of the so-called harmonized system, which is where all the tariffs are found—for whatever reason, the EFTAns cannot negotiate as a group. That's why you have these individual negotiations, as Frédéric was saying; you then end up with different results for different countries, depending on how far each party is prepared to go in exchange.

On the industrial side, the focus was on the ships, obviously, but for the rest it's a blanket coverage.

Mr. Larry Miller: To have four different agreements within one had to get pretty complicated.

Mr. David Plunkett: It's a nightmare for the lawyers.

Mr. Larry Miller: I can imagine. I give you credit for that.

Maybe we could just move on. Other than what you've already talked about, what are some of the sensitive sectors, if any, that EFTA was reluctant to put on the table at all? Have you pretty well touched on...?

Mr. David Plunkett: The sensitivities were largely in the agricultural area.

Everybody has sensitive issues. Frédéric mentioned french fries. If my memory serves, we were the first country ever to get a concession from Iceland on french fries, because for whatever reason, this is a significantly sensitive issue in their market. This was one of the late gains we were able to achieve, but if you go—

Mr. Larry Miller: They grow.... I'm sorry; I didn't mean to interrupt you.

Mr. David Plunkett: It's obviously a small market. I assume there's not a huge land mass for agricultural products. You can get into questions of food security. I don't want to put words—

Mr. Larry Miller: That's something they must grow there.

Mr. David Plunkett: Yes, but anyway, you get surprises when you go into this. I would not have expected potatoes in Iceland to be a major sensitive issue, but it proved to be.

Mr. Larry Miller: Okay.

Mr. Frédéric Seppey: I could offer one example. In Switzerland, for example, horsemeat is a product of high consumption. We have producers of horsemeat in Canada, especially in Quebec, who are trying to get more access in Europe and are facing high competition from countries like Uruguay. Well, with this agreement, in Switzerland we managed to get the tariff rate on horsemeat cut by half, which placed Canadian producers at an edge vis-à-vis their competitors from Latin America, for example.

● (1705)

Mr. Larry Miller: Thank you.

Most of the horsemeat, I believe, comes out of Quebec, is that correct? There used to be a couple of plants there.

Mr. Frédéric Seppey: That's correct.

Mr. Larry Miller: There used to be one in my riding, but it's been shut down for a number of years.

I think it was you, Mr. Plunkett, who talked about this deal—and I was having a little trouble with translation at the time—being bigger than with all the 10 countries in South America.

Could you just touch on that again? I wanted to make sure I didn't have my facts wrong on it.

Mr. David Plunkett: One of the things we have been doing, because there have been questions such as “Why EFTA?”, is to make sure we had gone through and done our numbers to show that these countries, while they aren't necessarily the first countries that spring to mind, are still significant economic players. That was one example.

Another example—and keep in mind that there are no substantive provisions with respect to investment in this agreement, at this point —is that Switzerland, I think, is our fifth largest investor from abroad, through companies such as Nestlé and a couple of the pharmaceuticals. These are highly sophisticated countries with some big name companies.

For whatever reason—we had to redo our numbers in the last couple of days, because the 2007 trade stats came out just a few days ago—when we looked at them, we were quite surprised, frankly, to see that there had been a significant surge in our exports to these EFTA countries. The point was that if our math is right, then the exports to these four EFTA countries were more than to the 10 Latin American or South American countries combined, the ones I listed.

The point is, EFTA matters. This is an agreement that there is some real commercial significance to these countries currently, and we are confident that with the improved trade policy framework, it will grow in the future.

Mr. Larry Miller: You mentioned Switzerland as being the number five investor here in Canada. What are the top four, just for my own curiosity?

Mr. David Plunkett: Well, the U.S., I assume; the U.K. is a major investor—

Mr. Larry Miller: Japan?

Mr. David Plunkett: —the Dutch are usually major, and.... I don't know.

Could somebody help me?

Mr. Larry Miller: That's curious. I would not have thought Switzerland that high.

Mr. David Plunkett: I'll get the list to you.

Mr. Larry Miller: Overall, in your opinion, do you think this is a pretty good deal for Canadian business?

Mr. David Plunkett: Yes. I think it has commercial benefits; it also has intangible benefits. It shows that we are able to conclude a negotiation, and that helps us in future trade negotiations with other partners.

Mr. Larry Miller: Is this a model for future FTAs?

Mr. David Plunkett: Well, it's a bit of a model, in the sense that it is a first-generation model. We will use first-generation models if, after consulting with Canadians, we think there's no need, for whatever reason, to go down the service or investment path. But if you look at the agreement we just concluded with Peru, it's far more extensive than this one because it gets into services and into investment.

This is a model up to a point, but it's not a cookie cutter. We will not necessarily use this model in all instances.

● (1710)

Mr. Larry Miller: Thank you, Mr. Chairman.

I'm sure that must be almost my time.

The Chair: Yes, that's pretty much it.

He almost made 15 minutes.

We just have time for a quick round. I'm going to ask to have one and a half to two minutes for questions and answers.

We're going to go to Mr. Malhi, Mr. Cannan, and then Mr. Julian.

Hon. Gurbax Malhi (Bramalea—Gore—Malton, Lib.): I have just one question. In the current practice under the other Canadian free trade agreements, customs authorities only verify the origin of imports, yet this agreement will require Border Services to verify, upon request, the origin of Canadian exports, at a cost of $1.6 million a year.

Mr. David Plunkett: If you're agreeable, I have a colleague here from the border agency. I would ask her to speak to the border issue more specifically.

The Chair: Could you please identify yourself for the record.

Thank you.

Ms. Brenda Goulet (Manager, Origin and Valuation Division, Canada Border Services Agency): My name is Brenda Goulet. I am a manager with the Canada Border Services Agency.

The Chair: Thank you.

Welcome, and please continue.

Hon. Gurbax Malhi: The current practice in other Canadian free trade agreements is that customs authorities only verify the origin of imports, yet this agreement would require Border Services to verify, upon request, the origin of Canadian exports at the cost of $1.6 million a year.

Ms. Brenda Goulet: The trade agreement with EFTA is different from our other trade agreements in terms of how the verification scheme is created. The NAFTA model, if you like, has a verification that is based on Canada Customs verifying the exporter. Under EFTA we have agreed to a verification regime whereby we will look at our own exporter and we'll respond to requests from the EFTA countries to review exports from Canada. They will respond to requests from us to review their exporters.

The consequence of this is that we have to create some legislative amendments to give us the right to verify our exporters and we also have to do some training. We have to be able to respond to requests from EFTA countries to provide information about Canadian exports to them. As a result, we will need resources to do that. We expect to find the resources from within our own budget review, but the reality is that we have a new verification scheme that is unique and different from the one we have in other free trade agreements.

The Chair: I think that's all, Mr. Malhi. Thank you.

Mr. Cannan.

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

To our hard-working panellists, thank you for your efforts to make Canada's first free trade agreement in almost seven years and on the first transatlantic agreement for Canada.

Specifically, I want to speak to the ties we're opening up to the European market. I've had the opportunity to go with Monsieur Cardin when we met with the European Union parliamentarians. A member from Germany was the chair of the International Trade Committee for the EU last June.

Maybe you could clarify for the committee the link that EFTA has with the EU. They have an agreement on the European Economic Area, I believe it's called. How would this play for Canadian businesses if we have a good relationship with the four EFTA countries in opening up opportunities to our second largest trading bloc in the EU?

Mr. David Plunkett: I will give you a superficial summary of my understanding of the link, but I'd like to send you a piece of paper that will give you a more formal link, because I'm now going on memory here.

As you know, the EU is now up to 27 member states that have various rights and obligations. There are a number of countries, such as the EFTAns, for which the EU is obviously their significant player. In fact, Norway has had two referenda, as I recall, to even join the EU along the way.

My understanding is that this economic arrangement is to try to facilitate the operation of trade and commerce, and possibly other areas, for the non-EU members. That can get you into regulatory issues to try to make sure you're onside with the EU's way of doing things, without necessarily having all of the rights and what not that you would as a full EU member. There are some subtle differences, because there is a difference in how Switzerland plays by this and how the other three do. That's why I'd rather give you something more specific on that.

There is a link between the EFTA countries and the EU, both formally and informally, over and above our own efforts to try to improve our economic partnership with the EU, which I'm sure we'll have a discussion on at one point.

This agreement, particularly the reference to the processing of agricultural product, where there is an explicit reference in this agreement to the EU, is basically our first agreement in six or seven years. It's also our first agreement with Europe, so it shows that we certainly have an interest in doing more with Europe. I think it sends a positive signal that Europe is still very important to us as a trading partner. Hopefully, individual companies and individual sectors will be able to take advantage of the opportunities in the EFTA to look at a more European approach.

Again, I think it very much comes down to a sector-by-sector situation. If you're willing, then we can send you some background material on this economic area to fill in some of the details.

● (1715)

Mr. Ron Cannan: I look forward to receiving that. It's a massive European market, and I'd love to open the door and diversify ourselves away from the U.S.

Quickly, speaking of the U.S., they don't have a free trade agreement with EFTA. Do you see some significant opportunities for Canadian businesses to get in there before the Americans do?

Mr. David Plunkett: Again, I think largely in the agricultural area, especially if you have products that are very price sensitive, where if all other things are even, if you have an *x* percent price advantage, it stands to reason that you may do well out of this—like in wheat. This is certainly one of the reasons we think it's important to be in there ahead of partners that don't have trade agreements at this time.

Mr. Ron Cannan: Thank you for your excellent work. There was an opportunity to meet with some of the members of Parliament, and it was a very enjoyable experience.

Thank you.

The Chair: Great. Thanks, Mr. Cannan.

Okay, for one minute, Mr. Julian.

Mr. Peter Julian: I'll make no comment except to thank you for coming.

I have four questions that hopefully you can answer now or in the coming couple of days.

First, what is the estimated value of tariff reduction on agricultural products from EFTA countries coming into Canada? It's estimated at $5 million for Canadian agricultural products going towards EFTA.

Second, what is the product promotion budget for Canada in the EFTA countries at the latest fiscal year completed—2006 or 2007? And if you have them, what would be the projected figures for coming years?

Mr. David Plunkett: Did you say “product promotion”?

Mr. Peter Julian: Yes, product promotion.

Third, concerning the preamble, you mentioned environment and labour. How are those provisions enforceable?

And fourth, the dispute settlement appears to be very similar to that of the softwood lumber agreement, or softwood lumber sellout. Is it the same model as the softwood lumber agreement?

Thank you.

Mr. Ron Cannan: Mr. Chair, I just want to clarify one of Mr. Julian's questions. For the promotional assistance, are you looking at just strictly dollars or in-kind as well? When we had witnesses during the presentation, we had people talking about in-kind and actual financial dollars.

● (1720)

Mr. Peter Julian: I'm just looking at the financial figures. It's much more difficult to evaluate the in-kind contributions.

Mr. Ron Cannan: Thanks for the clarification.

Mr. Ton Zuijdwijk: On dispute settlement, the dispute settlement system as contained in the Canada-EFTA Free Trade Agreement is a very simple one. Each side chooses one arbitrator and then the two parties that are in dispute choose the chair. It's the classical arbitration model. It's even called an arbitral tribunal, so it's very simple.

On the preamble, yes, the preamble is not excluded from dispute settlement. If a hypothetical question of environment or labour were to come up, one would have to figure out to what extent the preamble contains an actual obligation. A preamble generally is not viewed as containing obligations as such; it is more an introductory statement.

The Chair: Okay. I think we're going to have to leave it at that. We've run past our time.

I do want to thank the witnesses. And of course I'm sure you could get responses to any further questions from the officials. They have been most cooperative and helpful.

All of you, I appreciate your coming. Thank you very much for being here today.

While the witnesses are leaving, we've just got a couple of matters. I'm going to pass out the report we have completed and adopted on the Canada-Korea free trade negotiations. Just for your interest, it's not in the final form. The only difference is that there's going to be a kind of glossy cover.

I just wanted to mention to the committee that it would be my intention to table it in the House tomorrow.

Mr. Bains, we're gong to table it in the House tomorrow.

Hon. Navdeep Bains: Yes, I appreciate that, Chair. I saw that and the dissenting report and everything. It's pretty exciting stuff.

The Chair: Yes.

We did have one final piece of business. We were going to go in camera for that because the report was confidential, but we don't need to discuss the report. It has been adopted by the committee. I'm just going to table it tomorrow.

The next one is the question of travel for the committee. It has been proposed, in our pursuit of these various free trade agreements, that the committee may wish to travel to Colombia and perhaps, although the agreement is finished, Peru. And while in the neighbourhood, I understand that Ecuador is also under consideration or can, as an Andes partner, come into one of those agreements. I just want to put that on the table, because we have received an expression of interest from committee members.

I want to put it on the agenda for Wednesday. I'm going to ask the clerk and our analyst to perhaps put together some suggestions as to, if such a trip were to occur, when it would be convenient to go. I think the notion is the sooner the better, maybe April or maybe May. After discussion with various whips, I understand it might even be while the House is sitting. So that would be a consideration.

I just want people to be thinking about that for Wednesday, if you have some suggestions as to timing, and we'll also have some ideas as to what was done and accomplished on previous visits—because I understand members have gone to Colombia before—and what a possible itinerary might look like. So I will leave that to the clerk and ask you to bring your thoughts on Wednesday about that, that perhaps in the next six weeks we will visit South America.

Mr. Miller.

● (1725)

Mr. Larry Miller: In regard to that—something to think about, Mr. Chairman—there is a little bit of conflict down there right now with Venezuela and Colombia, or the threat of that. So I wonder if, when the clerk is preparing some figures, maybe we could throw Europe in there as well, because I'm sure the conflict that seems to be heating up down there may be part of the discussion on Wednesday, and maybe that would be an alternate choice to going to these countries that we just talked about. So could I just throw that out there?

The Chair: You threw it and it's still going.

Mr. Bains.

Hon. Navdeep Bains: Yes, I was about to say that Europe is a pretty big country.

My only view is that in the past, at least thus far since I've been in the committee, our trips have been consistent with the themes we've been discussing. So Colombia makes sense. It's pertinent, relevant, and timely.

As to Europe itself, we haven't indicated in this committee a desire to pursue looking into that matter in the near future. I think we've decided to talk about EFTA and then Colombia. So maybe not Europe, but if there was a desire, as a possible option, maybe EFTA...but I'm not sure. We've already signed the free trade agreement and it has gone by.

Mr. Larry Miller: That's what I was referring to.

Hon. Navdeep Bains: Okay. I'm not sure how much value that would be, so again, I would question that particular trip.

But definitely Colombia, in my opinion, is very time-sensitive, recognizing, of course, the concerns you've raised with respect to Venezuela. But on our side, we feel that it's a very important trip.

The Chair: It sounds like you gave a war and nobody came. There's only one side at war down there.

In any event, I think that's all we needed. I just wanted to put it on the table and seek your views.

If there is no further business, we will adjourn until Wednesday.

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