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Chair

Mr. Lee Richardson

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• (1540)

[English]

The Chair (Mr. Lee Richardson (Calgary Centre, CPC)): Ladies and gentlemen, we will now come to order. This is meeting 21 of the Standing Committee on International Trade during this session of Parliament.

We do have some business to discuss in addition to our discussion of the free trade agreement between Canada and the states of the European Free Trade Association. However, in the interest of time and out of respect to our witnesses, we will hear our witnesses first and, at the end of the meeting, save a little time to deal with future business.

I'll begin, then, if I have the agreement and consensus of the committee, by introducing our witnesses today. We'll proceed in the usual fashion with the questioning of those witnesses. I would guess that if we went to five o'clock, that would give us sufficient time to deal with future business from five o'clock to 5:30.

What time is the vote?

Mr. Dean Allison (Niagara West—Glanbrook, CPC): It's at 6:30.

The Chair: So we have lots of time. All right, very good.

With that, I welcome everyone back, and I welcome our witnesses today.

We're very pleased to have with us today the ambassador of Iceland to Canada, His Excellency Markús Örn Antonsson. Thank you for being with us. From the Embassy of the Kingdom of Norway, we have Per Øystein Vatne, fist secretary. We also have the deputy head of mission from the Embassy of Switzerland, Nicolas Bruehl. I thank you all for appearing today.

We'll begin with a brief statement from our witnesses, and we'll follow that with questions from the committee.

Your Excellency, perhaps I could ask you to begin the discussion. Something under ten minutes would be welcome. Thank you.

H.E. Markús Antonsson (Ambassador of Iceland to Canada, Embassy of Iceland): Mr. Chairman and honourable members of the committee, thank you very much for inviting the representatives from the embassies here in Ottawa, the three EFTA states, to appear before this distinguished committee to express our views on this very important EFTA-Canada free trade agreement and see how it will open up opportunities by bringing down trade barriers for all countries involved.

The proposal to create a free trade area between Canada and the four member states of the European Free Trade Association was launched by the then Canadian Prime Minister Jean Chrétien in October 1997. The EFTA states warmly welcomed the Canadian initiative. Canada is an important trading partner for the EFTA states and free trade between the countries would be greatly beneficial for both sides. The negotiations with Canada have commanded a great deal of attention as Canada and the EFTA states are not only strong trading partners but also enjoy close cultural relations.

After exploratory meetings, the two sides embarked upon free trade negotiations in October 1998. Between 1998 and 2000, EFTA and Canada held 10 rounds of free trade negotiations. An agreement was reached on most issues, but the negotiations stalled in May 2000 because of a single issue, the dismantling of tariffs on ships, as Canada insisted on maintaining its customs duties on ships produced in the EFTA states.

After the negotiations stalled in early 2000, the EFTA side made several attempts to relaunch the negotiations. Even the fact that Norway abolished its subsidies for shipbuilding on December 31, 2000, did not pave the way for a conclusion of the free trade agreement. In an effort to find a solution that would make it possible to conclude the negotiations, the EFTA states tabled on January 30, 2004, a proposal for a generous scheme on the dismantling of tariffs on ships that should fully meet the concerns expressed by Canada in the negotiations. It involved a dismantling period for sensitive products of 15 years and, in addition to that, effective defence measures against possible future state aid.

On December 6, 2004, the then Prime Minister of Iceland, Mr. Halldór Ásgrímsson, sent a letter to the Canadian Prime Minister, Mr. Paul Martin, requesting immediate resumption of the talks. Prime Minister Martin replied on March 14, 2005, to the letter from the Icelandic Prime Minister that Canada had conducted a detailed review of its bilateral and regional trade and investment policy strategy, including its position on re-engaging with EFTA; however, due to the sensitive nature of the outstanding issues, it might be several weeks before Canada would be in a position to formally respond to EFTA's last proposal.

On May 4, 2006, we, the EFTA ambassadors in Ottawa, met with Mr. David Emerson, Minister of International Trade in the present Government of Canada. At that meeting, Mr. Emerson indicated that the administration was preparing an internal report on the relations with EFTA and stock-taking with the aim of having a meeting with EFTA in September 2006. In our discussions with Minister Emerson, it became evident that he aimed to strengthen Canada's strategic opportunities in external trade by securing preferential access to new markets. At the same time, he underlined his concern regarding the Canadian shipbuilding industry, which would have to be stepped up and helped to become globally competitive.

The same concerns about the domestic shipbuilding industry were expressed by the then Minister of Industry, Maxime Bernier, when we, the ambassadors, met with him in August 2006. The subsequent stock-taking and informal discussions led up to formal negotiations, which now have resulted in a free trade agreement signed by respective ministers from Canada and the EFTA states.

Iceland's membership in EFTA in 1970 marked a turning point in Iceland's foreign relations. Through its membership, Iceland became a full participant in a free trade association, and for the first time Iceland undertook obligations on free trade in industrial products.

● (1545)

The agreement creating the European Economic Area, the EEA agreement, was negotiated between the European Community—the then member states—and seven member countries of the EFTA, and it was signed in May 1992. Subsequently, Switzerland decided not to participate, following a referendum, and three others joined the EU. The EEA agreement entered into force on January 1, 1994.

The EEA was maintained because of the wish of the three remaining countries—Norway, Iceland, and Liechtenstein—to participate in the internal market while not assuming the full responsibilities of EU membership. The establishment of the EEA in 1994 was a major step we took together with other EFTA countries at the time. The EEA provided access to the EU's internal market, with freedom of movement of goods, services, labour, and capital in the whole area. We consider the EEA to be a remarkable success and a durable arrangement. We follow developments within the EU very closely. After all, the EU is by far our biggest trading partner, and some of our closest friends are members. We wish the EU well and want to see it succeed in its endeavours. However, there are no pressing reasons for Iceland to join the union. Indeed, there are certain matters, such as the EU's common fisheries policy, that would make joining highly problematic. Active participation in international cooperation, freedom of trade, and increased access to markets are prerequisites for the future strengthening of Icelandic industries.

Now, as before, the number of business opportunities is greatest where growth is fastest. For this reason, we are looking further afield than our traditional trading partners. With EFTA, Iceland has negotiated free trade agreements with numerous countries in Africa, South America, and Asia.

In all, Iceland is now a party to free trade agreements with 53 states, with a total of one billion inhabitants. It can be expected that Colombia, Peru, Thailand, and the states of the Gulf Cooperation Council will join that number through agreements with EFTA. This

year EFTA will begin free trade negotiations with India. Bilateral negotiations between Iceland and China on a free trade agreement are well under way.

Iceland and Canada have shared close and friendly ties over a long period of time. A large proportion of the Icelandic population, actually about 20% of all Icelanders, migrated to Canada during the latter part of the 19th century and the early part of the last century. Today we find, by far, the largest Icelandic population outside Iceland in Canada, and estimates are that the number of Icelanders in the Canadian Icelandic community exceeds 100,000.

Trade volume between our countries has been moderate, but it is our belief that there is an ever-increasing interest by the Icelandic private sector to expand activities in Canada. The same can be said about Canadian interests in Iceland. The new EFTA-Canada free trade agreement will definitely have a very positive snowball effect.

Bearing in mind the profound friendship and long-lasting cultural and human relations between Iceland and Canada, two components have been strikingly lacking: a more active and productive trade relationship, and direct air communications. Today we have to travel by air through the United States or even London, England, to get between Iceland and Canada. Fortunately, this will change when Icelandair starts operating its scheduled flights to Toronto and Halifax on a year-round basis this coming spring. Thanks to the new open skies policy of the Canadian government, an air services agreement between Iceland and Canada is finally in place and being implemented. This fact is undoubtedly going to contribute greatly to two-way commercial links between our countries.

● (1550)

From our perspective, the free trade agreement will provide great benefits for trade between Canada and Iceland and EFTA as a whole. I would like to mention just a few arguments in this respect.

The creation of a free trade area would be beneficial for both sides, since it would improve access to the markets of the other side. It would thus create reciprocal advantages and increase geographical diversification of trade—among others, in the offshore sector, where closer cooperation might lead to meaningful know-how transfer, to the benefit of the Canadian industry.

Fair and open world trade will benefit everyone, and on those premises Iceland is participating in the Doha negotiations, which, unfortunately, could be making better progress. The fact that the Doha Round has progressed rather haltingly has made it even more important for countries to gain market access through preferential free trade agreements.

The relations between Canada and the EFTA countries are close and important from both an economic and a cultural perspective.

The free trade agreement between the two sides would provide an opportunity for enhanced cooperation between industries of the two sides.

For Canada, the agreement would be the first free trade agreement with European partners. Such a linkage with countries in Europe outside the EU could be a milestone towards the establishment of enhanced economic ties with European economies.

The conclusion of a free trade agreement with Canada would send a positive signal to EFTA's economic operators and make the Canadian market more attractive to them.

For the EFTA states, a free trade agreement with Canada would be the second such agreement with a NAFTA partner, after the one with Mexico, which has been in force since 2001. The conclusion of a free trade agreement with EFTA would in particular eliminate discrimination faced by Canadian exporters vis-à-vis current EFTA free trade partners such as, *inter alia*, the EU, Korea, and Mexico.

In addition to giving the parties preferential access to each other's markets, the agreement provides for cooperation between the two sides in the area of trade facilitation.

The Government of Iceland has now prepared and presented to the Icelandic Parliament the proposal for ratification of the EFTA-Canada free trade agreement. It is expected to receive universal support in Parliament and will be passed in April.

I will not elaborate further, but to conclude, I take the opportunity to welcome this free trade agreement as a significant milestone in advancing and forging the cordial relationships that have existed so long between Canada and the four EFTA countries.

Thank you, Mr. Chairman.

• (1555)

The Chair: Thank you, Your Excellency.

We will continue with testimony from the witnesses before we get into the round of questioning. I'd ask that we hear all of that before we have questions asked by the committee.

Next, we will turn to the representative from Switzerland, the head of the mission of the Embassy of Switzerland, Nicolas Bruehl.

Thank you.

Mr. Nicolas Bruehl (Chargé d'affaires a.i., Embassy of Switzerland): Thank you very much, Mr. Chairman and honourable members of the Standing Committee on International Trade. Thank you very much for allowing me the opportunity to give an opening statement from a Swiss perspective.

From the Swiss side, we are very pleased about the signing of the long-awaited EFTA-Canada free trade agreement. We are sure it will further strengthen the economic relations between our highly developed economies. For Switzerland, Canada is a very important trading partner, in fact the most important trading partner after the European Union, the U.S., Japan, China, and Hong Kong.

I'm sure that once the agreement is in force, Canada will become an even more important export market for Switzerland and the other EFTA states, and vice versa, the EFTA states for Canada. By the way, Canada will be the largest free trade partner of the EFTA states after the European Union.

The conclusion of the EFTA-Canada free trade agreement is a major achievement. Given that the world is evolving quickly and areas beyond trading goods are of increasing importance in international economic relations, we will be able to add more value to the package by further developing the agreement in due time, as foreseen by the various evolutionary clauses relating to services, investment, public procurement, and other second-generation issues.

For Switzerland, a country dependent on exports with diversified markets worldwide, the conclusion of free trade agreements with important partner countries, alongside membership in the WTO and the contractual relations with the European Union, is one of the three main pillars in its policy of market liberalization and of improving the general conditions for foreign trade.

Now I have some remarks regarding possibilities.

Switzerland and Canada can expect advantages specifically in those areas where tariffs are eliminated or reduced. Apart from a few exceptions, the tariffs on industrial goods will be eliminated in the trade between the EFTA states and Canada. In addition, both sides committed to important tariff reductions for processed agricultural products and for certain basic agricultural products.

Previous studies on the impact of existing free trade agreements for Switzerland show that trade with its free trade partners, exports and imports, grows on average significantly faster than trade with the rest of the world. We expect to see similar development in the case of the EFTA-Canada free trade agreement.

Now I have some remarks about the ratification process regarding Switzerland.

Domestic requirements allow Switzerland and Liechtenstein to apply trade agreements provisionally until the Swiss and Liechtenstein parliaments have approved them. This possibility is also foreseen in the EFTA-Canada free trade agreement; see article 41 of the agreement.

This device allows an agreement concluded by Switzerland to enter into force as soon as the partner countries have accomplished internal procedures in view of ratification. Otherwise the entry into force of such agreements would have to wait for the spring session, 2009, of the Swiss Parliament following the signing of an agreement, as the Swiss Parliament ratifies such agreements only once a year as part of the annual report on Swiss foreign economic policy submitted by the federal council to Parliament each January. In the case of the EFTA-Canada free trade agreement, this would mean that the agreements could only enter into force on June 1, 2009.

According to our information, the ratification process on the Canadian side is foreseen to be concluded by autumn this year; in Iceland, as the ambassador mentioned, it will be quite soon; and Norway will have concluded the ratification procedures by then as well. This would allow an entry into force of the EFTA-Canada free trade agreement and the bilateral agricultural agreements by January 1, 2009. Switzerland and Liechtenstein would apply the agreements provisionally from the day of the entry into force until the decision taken by Parliament in March 2009 and would notify accomplishment of their internal procedures immediately thereafter.

These are some remarks regarding the ratification process. I will finish with perhaps one remark.

• (1600)

I have read the transcript of the meeting of the standing committee on March 10. There was discussion or some kind of surprise that Switzerland would be the fifth largest investor from abroad, and I can confirm to you that is really the case. So Switzerland is, after the U.S., the U.K., France, and the Netherlands, the fifth largest investor in Canada, before Japan and Germany. That is just as confirmation, because on March 10 I think there was some surprise about this. I can confirm that it's true.

So thank you very much for your attention, and Mr. Chairman, I will end my comments here. Thank you for allowing me to provide a brief overview. I'm ready to respond to questions.

The Chair: Thank you, Mr. Bruehl. We will have questions, no doubt, later. Thank you for that presentation.

Finally, for our witnesses today, we're going to hear from the first secretary of the Embassy of the Kingdom of Norway, Per Øystein Vatne.

Mr. Vatne.

Mr. Per Øystein Vatne (First Secretary, Embassy of the Kingdom of Norway): Mr. Chairman and honourable members of the committee, thank you very much for allowing me the opportunity to provide you with some information regarding the free trade agreement between Canada and the member states of EFTA: Iceland, Liechtenstein, Switzerland, and Norway.

The signing of the free trade agreement between Canada and EFTA in Davos, Switzerland, on January 26, 2008, marked the happy conclusion of lengthy and at times challenging negotiations.

The free trade agreement between Canada and EFTA is among the most important free trade agreements EFTA has ever concluded. Canada is an important economic partner for the EFTA states. In 2006 Canada was EFTA's fifth largest trading partner regarding trading goods, after the EU, the United States, Japan, and China. As for Norway, Canada is our third largest trading partner in goods, after the EU and the U.S. It goes without saying that concluding a free trade agreement with Canada has been a matter of great priority to us.

Why do we have regional or preferential trade agreements? It's a broadly held view that multilateral, non-discriminatory trade liberalization is the economic ideal. However, as we are currently experiencing, the multilateral process is often cumbersome and slow. We believe the regional trade agreements, like the one concluded

between Canada and EFTA, can be good and useful supplements to the multilateral process.

The Canada-EFTA trade agreement is an agreement amongst some of the world's most developed economies, and it will surely bring new market opportunities for all parties involved. This potential can be realized further by expanding the agreement to cover new areas such as trade in services, as is foreseen. The Canada-EFTA free trade agreement covers trade in non-industrial products, including fish and other marine products and processed agricultural products. Selected basic agricultural products are covered by agreements concluded bilaterally between Canada and Iceland, Norway, and Switzerland at the same time as the free trade agreement.

The agreement aims at liberalizing and facilitating trade in goods in conformity with the relevant WTO provisions. Most industrial goods, including fish and other marine products, will benefit from duty-free access to the respective markets as of the entry into force of the agreement. The elimination of barriers to trade and duty-free access to industrial products of each others' markets is expected to boost trade flows between Canada and EFTA countries.

The agreement also includes references to existing WTO obligations in areas such as services, investment, and public procurement. General principles regarding competition law and policy are also set out in the agreement. The Canada-EFTA joint committee, established by the agreement, will supervise the application of the agreement, which also provides for binding arbitration.

Canada is already a key trading partner for EFTA, and the agreement is expected to bring further growth and diversification in bilateral trade. Total goods trade between EFTA and Canada amounted to \$8.7 billion U.S. in 2006, up 10% in nominal value terms from the previous years. EFTA's exports to Canada in 2006 were worth \$6 billion U.S., up 4% from the previous year in nominal value terms. EFTA's imports from Canada totalled \$2.7 billion U.S., up 26% from the previous year.

• (1605)

EFTA's leading imports from Canada in 2006 were nickel and articles thereof, pharmaceuticals, machinery, and mechanical appliances. Norway's main export to Canada in 2006 were mineral fuels and oil, followed by machinery and mechanical appliances. Switzerland's most important exports to Canada consisted of pharmaceuticals, organic chemicals, farm machinery, and mechanical appliances. In 2006 Iceland exported mainly fish, crustaceans, machinery and mechanical appliances to Canada. Bilateral investment stocks between EFTA and Canada reached more than \$22 billion Canadian dollars in 2006.

As mentioned previously, Canada is Norway's third largest trading partner for goods, after the EU, and the U.S. Norwegian exports to Canada are dominated by oil and petroleum products. But even if one disregarded this, Canada is Norway's sixth largest trading partner for goods. The import of goods from Canada is growing more rapidly than Norwegian exports to Canada. The largest imports are nickel and articles thereof, machinery, electrical machinery, ores, slag, ash, and optical instruments.

Canada generally has low applied tariff rates and already offers zero tariffs on a number of products that are central to Norwegian exports, such as fish and artificial fertilizers.

Regarding the Norwegian ratification process, the parliamentary bill for the ratification of the Canada-EFTA agreement is currently under way. According to plan, this will be presented to Parliament during the first half of May 2008. We cannot predict with certainty how long it is going to take for Parliament to pass the bill, but the assumption is that this will be done by the end of the parliamentary session in June. Ratification by the cabinet, king, and council will follow. The ratification will be notified through the depositary, which will then notify all parties to the agreement.

We are aware there have been concerns about Norwegian subsidies to the shipping industry. The subsidy measures that were previously in place to support the Norwegian shipbuilding industry no longer exist. Ordinary shipbuilding support was terminated in 2000. A temporary measure was introduced in 2003 as a result of the case brought by the EU against Korea in the WTO. This measure was in effect from March 15, 2003, until March 31, 2005. Currently the Norwegian shipbuilding industry is not subsidized. Norway has no plan to reintroduce such subsidies.

The Canada-EFTA trade agreement provides Canada with very beneficial conditions by allowing the phase-out period for tariff eliminations for several ship products. The phase-out period is up to 15 years for most sensitive ship types.

I would like to underline that EFTA's general position is always zero tariff on industrial products from day one. Consequently, Canada has been granted extraordinary concessions in this respect. I would also like to stress that a phase-out period like this for some industrial products is very rare in free trade agreements with developed countries.

Mr. Chairman, I will end my comments here. Thank you for allowing me to provide the committee with this information.

I welcome questions from you and honourable members of the committee, and I will do my best to answer them.

Thank you.

● (1610)

The Chair: Thank you, Mr. Vatne, and again, thank you to all our witnesses.

I think that's a pretty good summary, from what we have heard. It's useful to hear from the other side, so to speak. I'm sure our committee members will have questions.

I'm going to go now to committee members. First will be Mr. Bains from the Liberal Party.

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

I'd like to thank the witnesses. I greatly appreciate your coming before committee to talk about this. I know that some of you, through your envoys, have come here in previous parliamentary sessions and have met with the committee to discuss EFTA.

We have the agreement before us. Really, we're not negotiating anything more; we're just asking questions. My first question has to do with the current agreement and the way it's been negotiated. Our number one concern, from day one, has been levelling the playing field. This will echo some of the comments made by the representation from Norway about shipbuilding.

In your opinion, the number of years granted to Canada for tariff reduction was extraordinarily long as compared with other tariff reduction schemes in the agreement. I believe the reason we were able to negotiate that, or the reason we were concerned about that and had the 15-year tariff reduction scheme in place, was the fact that we felt shipbuilders were heavily subsidized in Norway—this is something I would like clarification on—until 2005, I believe, until the WTO was notified that this was no longer the case.

I know that this was said in the past, but I would like clarification from the Norway envoy. Is there any type of subsidization, in any shape or form, for shipbuilders in that country presently?

Mr. Per Øystein Vatne: No. There is no subsidization in Norway currently being applied, no.

Hon. Navdeep Bains: I specifically targeted that question to Norway because that's the country we had the most sensitivities with when it came to shipbuilders. It's not to exclude the other two countries that are here today.

My second question is with respect to what we've been told by the government time and time again concerning this free trade agreement, that Canada would be able to use this free trade agreement with the EFTA countries as a gateway into the European Union. This is an argument that has been presented by the government as a means to say that we would have access into the European market above and beyond the markets that we're currently negotiating with.

Could you comment on whether you think that's a fair comment? Do you think that's an accurate comment? Or do you feel that comment is not correct?

● (1615)

Mr. Per Øystein Vatne: Thank you, Mr. Chairman.

I think it could be a fair comment, yes. If you have business-to-business relationships, there will be stronger relationships established between European businesses and Canadian businesses. That's how we see it. And that, of course, could facilitate later entry into the EU market.

From a technical point of view, as far as I can see, in the EEA agreement and in the Swiss agreement with the European Union, we all have rules of origin that allow quite a lot of third country input. If you look at what Canada is exporting today to Norway, for example, it's mainly raw materials—nickel and so on—and those products are being further processed. If you have a change in a tariff heading rule, or you allow 30%, 40%, 50% input of third country materials to obtain EEA origin status, that means the product is duty-free among all the EEA states. That means a Norwegian, Swiss, or Icelandic producer can buy the raw material, and if the origin rules allow, he will then be able to export the finished product to the EU free of duty.

But that's just an example. To go beyond that would be hypothetical. It's just an example, I think, of how these strong trade relations will be even closer if the agreement is concluded.

Thank you.

Hon. Navdeep Bains: As my follow-up question, again, this is something that the government did not provide enough on, from our perspective. We had raised some concerns with regard to the economic analysis that Canada had conducted in terms of the impact of this free trade agreement on shipbuilders and job losses here locally and in terms of calculation of the creation of new jobs or the impact it would have on certain goods.

Are you aware of any economic analysis done on your end, when your countries were negotiating, in order to determine how this free trade agreement would impact your specific countries? This question is open to all three witnesses.

Mr. Per Øystein Vatne: I must admit, I haven't seen anything. Of course, when we negotiate a free trade agreement, we do it on a rather broad basis. We involve all relevant partners in Norway, including labour unions, industry—

Hon. Navdeep Bains: But do you have any study or anything?

Mr. Per Øystein Vatne: I'm not sure. I cannot actually answer that question. If there is a study, I haven't seen it myself, so I am not able to answer the question.

Hon. Navdeep Bains: Thank you.

Mr. Nicolas Bruehl: It's the same situation for me. I didn't see such a study. I'm sure that they realize and that they include all important partners, but I can't tell you if we had such a deep study made or not.

Hon. Navdeep Bains: I think Iceland conducts many free trade agreements. I'm wondering if you have a system in place for doing economic analyses or studies that would become public or part of a negotiation that you could discuss, or is that something you can or cannot share?

H.E. Markús Antonsson: We usually don't have very extensive discussions or debates about free trade agreements in Iceland, because generally they are so welcome and there is a consensus in Parliament about them. I think that will be the case here with the agreement with Canada. Of course the joining of EFTA by Iceland in 1970 was heavily debated at that time, and of course we had different views along political lines on how healthy that would be for Icelandic society, and so on. People were naturally painting the devil

on the wall in many of these argumentations that were going on at that time, but it has proved very successful for us.

I think that the unions, for instance, are very happy with the arrangements. As a matter of fact, we had to go through a renovation process in many of our industries when we entered EFTA. We are a small economy and we have a lot of small businesses. We were even producing our own carpets in Iceland for the Icelandic market, and biscuits and chocolates and all that. It was difficult for many of the factories in these individual sectors when they faced the competition from very well-established companies in other countries that could actually offer the goods at lower prices, and they had free access to the Icelandic market after we joined EFTA. This was something the industries faced; they took the necessary measures to actually renovate or adapt to a new situation, and they did it very well.

I am not an expert on the shipbuilding clauses involved in the agreement. I don't know the background as well as my Norwegian colleague here do, but I know from our discussions with the ministers here in 2006, especially with then Minister of Industry Bernier, that they were very much determined to do everything the Canadian government could do to safeguard the Canadian shipbuilders. He underlined that this still was a matter for concern at that stage, and I gather that this has been studied very carefully by the Canadian government and that they have done their economic surveys on the impact of the EFTA treaty on particularly this sector of the industry.

• (1620)

Hon. Navdeep Bains: Thank you very much, Your Excellency.

I believe my time is up. I may have a few more questions, depending on—

The Chair: You'll have to wait for the next round.

Hon. Navdeep Bains: Okay, we'll wait. Thank you.

The Chair: Thank you.

We're going to move to the Bloc.

Go ahead, Monsieur André.

[*Translation*]

Mr. Guy André (Berthier—Maskinongé, BQ): Good afternoon and welcome to all of you. We have representatives from the Embassies of Iceland, the Kingdom of Norway and Switzerland. I would like to thank you for coming along today to help us better understand this Free Trade Agreement. We have some questions on the agreement, but I would like to begin by saying that we have a great deal of admiration for your respective small countries. As you are aware, there is a sovereigntist movement in Quebec; we want to create a small country of our own with seven million citizens. Small countries such as yours inspire us to fight for our own country.

I know that Switzerland is a leader in the manufacturing of brand-name pharmaceuticals. My first question is with regard to Switzerland's intentions on this front. Do you plan to manufacture pharmaceuticals in Montreal, an ideal location for such an endeavour, in order to sell more products in North America? Such a decision would also create jobs in Quebec.

I also have a question for Mr. Vatne, the Norwegian representative. As I am sure you are aware, Teco Management acquired Davie Québec, a shipbuilding company, for \$28.4 million, a virtual giveaway. The sector has since begun to flourish again. Shipbuilding was heavily subsidized in Norway for a number of years and, even if that is no longer the case, it is something that still causes a lot of concern. I appreciate that there is a 15-year phase-out period for some products and a 10-year phase-out period for products that are more affected by competition; however, some Quebec companies are still concerned.

How do you foresee events unfolding? Are Norwegian shipbuilding companies buying Quebec and Canadian companies as part of a strategy to gain a greater market share?

Mr. Nicolas Bruhl: Thank you very much for your question, Mr. André. Quebec is obviously an important market for Switzerland; indeed, my Ambassador, Werner Baumann, was in Quebec City a few weeks ago for a courtesy visit. He had some very productive meetings and we realized that Montreal and other Quebec locations are key to strengthening economic ties between Switzerland and Quebec. I am no expert, but I am convinced that this agreement between the states of the European Free Trade Association and Canada will be an ideal means for strengthening these ties. We have always enjoyed excellent relations with our friends in Quebec and I do not think that will change; indeed I think that the agreement will only serve to strengthen relations.

• (1625)

Mr. Guy André: With regard to pharmaceuticals, or to be more specific, are companies planning to set up...

Mr. Nicolas Bruhl: I do not have any specific information on that issue at the moment, but given the excellent relations between Quebec and Switzerland, I am sure there is scope for developing what we already have, especially with regard to pharmaceuticals and chemical products. I am sure that aspect will continue to develop.

Mr. Guy André: Thank you, Mr. Bruhl.

[English]

Mr. Per Øystein Vatne: Mr. Chairman, first, on your question regarding the strategy of Norwegian shipyards, I don't want to go into depth on that, because it is a business-related issue and I think they have to answer in regard to their own strategy. But it's rather common that Norwegian shipyards or companies have interests abroad. That's true.

As you probably know, and as I mentioned, a Norwegian investor invested several million Canadian dollars in the shipyard Davie Québec. Following the Norwegian buyout and the latest investments from the Norwegian company, Davie Yards, as it's called now, will receive new equipment and heavy lift capacity at its Quebec yard. Now up and running, the new company has landed contracts to build five ships during the next 30 months. Davie has also signed a memorandum of understanding with another Norwegian client to build two more ships for the North Sea oil fields. And with the Norwegian-owned, Davie is boosting its workforce, as far as I know, to about 1,000 persons. So think I'd want to see this from a very positive angle.

Thank you.

[Translation]

Mr. Guy André: Thank you.

Do I have any time left?

The Chair: Yes.

Mr. Guy André: I simply wanted to share with you the concerns that have been raised with regard to shipbuilding. It creates a certain challenge for us when it comes to establishing ties; the relationship needs to be mutually beneficial. For example, Quebec could specialize in the construction of a particular type of ship or pleasure craft and Norway could increase its share of the market.

Do you think that we could develop greater complementarity in the shipbuilding sector, or do you think the relationship is purely one of competition?

[English]

Mr. Per Øystein Vatne: To be honest, I don't feel I'm competent to answer such a question about further development. I think I will leave that open. We could ask the industry, of course, about this question, but for the time being, I don't think I'm in a position or competent to answer that question.

Thank you.

Mr. Guy André: Thank you.

The Chair: Thank you, Mr. André.

Maybe we'll give Mr. Julian an opportunity to catch up and then come back.

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

The Chair: We'll go ahead with Mr. Allison and give Mr. Julian a minute to catch up.

Mr. Allison.

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

I want to thank all the gentlemen from the embassies for being here.

My question is for you, Your Excellency from Iceland. I know you mentioned during your opening remarks a strategy that was proposed for 15 years. I know that's what we have in place right now for shipbuilding, but my question is, was this something originally referred to or discussed as a possibility? I recognize it was highly unusual, etc., Your Excellency, but I thought you mentioned a 15-year...?

• (1630)

H.E. Markús Antonsson: The dismantling period.

Mr. Dean Allison: Right. Was that close to what we ended up with, or was it something that was proposed originally? Was it ever a part of...?

H.E. Markús Antonsson: For the most sensitive products, it was for 15 years, yes. That's correct, yes. It was for 15 years for the most sensitive products, and then there was another category of less sensitive products, which was for 10 years.

Mr. Dean Allison: Right, but was that something you guys had proposed, or were you just commenting on the...?

H.E. Markús Antonsson: It was proposed by EFTA to get the negotiations going again when we experienced the obstacles caused by the shipbuilding file.

Mr. Dean Allison: Okay. Was what you proposed pretty much where the recommendation ended up?

H.E. Markús Antonsson: In the agreement?

Mr. Per Øystein Vatne: It was part of the negotiations. As to what was proposed and where it ended up, I don't have a full overview, because parties presented proposals and counter-proposals, and so on. It was a process that ended up with the result you see today, with 15% for the most sensitive products and 10% for the less sensitive products. This was the result of the rather lengthy negotiations that took place on the part of the two parties making proposals to each other.

Mr. Dean Allison: Thank you.

The Chair: Mr. Miller.

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

Thank you to the witnesses today. I haven't had the privilege of being in Norway or Iceland, but I'd very much like to go there some day. As I was telling Mr. Bruehl beforehand, I did have the pleasure of being in Switzerland a couple of years ago. It's a very beautiful country. I think it's great that Canada is able to come to a trade agreement that, hopefully, will serve all of our people and industries well.

One of the questions I have is about one component that always means a lot to Canada, which is agriculture. There are a number of commodities and products that I understand your countries are looking for, which are going to come out of here. I'm wondering if each one of could touch on those, or exactly which products go where, whether it be beef or wheat, or whatever.

I'll turn it over to you.

H.E. Markús Antonsson: I can make a start, perhaps.

As I said earlier, Iceland has a variety of small businesses. Of course, we are strongest in maritime food production. We are quite capable of producing machinery for the fishing industries in the world, and we have been successful in exporting these machines. We are already doing that to maritime Canada; we have quite strong business relations with Newfoundland and Nova Scotia in particular. I think this will be reinforced even further with the new free trade agreement. I see this basically in fish and fish products and in the machinery and manufactured goods used by the fishing industries.

Then there is a certain potential in outerwear clothing. We have some 18% tariffs on these manufactured goods going to Canada now, and when this is abolished, we will have a stronger position in that field.

On the other hand, for Canada we have actually, over a number of years now, imported twice as much from Canada in dollars as we have exported from Iceland to Canada, so this has been very beneficial trade for you. It has been going up and down a little. We have had years that showed temporary expansion of Canadian exports into Iceland above these normal levels, so to speak. That is

when building the machinery for the aluminum smelters that Alcoa and Alcan have been building up in Iceland was going on.

Also, the purchase of two or three Dash 8 aircraft from Canada counts considerably in these figures. It has been the case in the last few years that we have been purchasing aircraft from Canada, and we are actually having one built now, a maritime surveillance aircraft for our coast guard that is being manufactured here in Canada. This has been going up and down a little.

But it has been rather cumbersome to conduct these relations because of the fact that the people have had difficulties in even travelling between our countries. It has been very inhibitive for many of the businessmen to not have easy connections to come over here. Still, I think this is developing in a positive direction.

For Canada, apart from these items that I mentioned, you have been exporting paper to Iceland, exporting prefabricated houses and materials for house building. I'm sure this will increase when the tariffs are abolished. You are getting a much stronger position in the Icelandic market vis-à-vis the EU. We have no tariffs on the EU groups, and now you will be enjoying the same position for your goods, according to the agreement.

•(1635)

As for agricultural products that have been included in the bilateral agreement with Iceland, french fries are quite important for Canada, and now you will have more beneficial situations on the Icelandic market with french fries from New Brunswick or Nova Scotia than the EU will have, since tariffs on the EU french fries are 76%, but the Canadian french fries will carry 46% import duties. These are little protective measures for the Icelandic agriculture.

Mr. Larry Miller: Thank you.

Mr. Bruehl, what agricultural products or any products do you see moving into Switzerland at the moment?

Mr. Nicolas Bruehl: Thank you very much for this question.

As you know, this agreement between EFTA and Canada will be a so-called first-generation agreement. That means it includes industrial products and fish as well as processed agricultural products. So for one thing, Swiss chocolate will be cheaper. There'll be a tariff reduction on chocolate and biscuits and these things. That is a good thing, I would say.

From your side, as the ambassador mentioned, there will be an actual agreement between Switzerland and Canada as well, and there Canada will profit on aspects like durum wheat or horsemeat. So, for example, you can export much more of these products to Switzerland than you could before.

There are quite a lot of advantages.

Mr. Larry Miller: Thank you.

Mr. Vatne.

Mr. Per Øystein Vatne: Thank you, Mr. Chairman.

I don't want to go into any specific products here, because I think the agreement as such is made in order to create the potential for increased trade. As my colleague has mentioned, there are already several products being imported and exported at this stage, so hopefully this trade will expand, and furthermore, we hope that new products also will be traded.

As far as I remember, Canadian exports to Norway almost doubled from 2006 to 2007. I think in 2006 Canadian exports were approximately 11 billion Norwegian kroner, and there is an exchange rate of approximately 5.5. In 2007, so far the figures have shown that it's approximately 20 billion Norwegian kroner, so it's close to a 100% increase. Of course, we can see a trend that there is certainly an interest in increasing exports from Canada to Norway. There must be also new products besides the already existing products, or there must be interest on both sides here.

Our exports have also increased, but not at all at the same level as the Canadian exports to Norway.

•(1640)

Mr. Larry Miller: Thank you.

Do you agree that travel will be easier for businessmen, and what have you, between countries, as Mr. Antonsson suggested it would be between Canada and Iceland? Would the same go for Norway?

Mr. Per Øystein Vatne: I understand. Well, unfortunately, so far when we go from Canada to Norway, we have to go by other European destinations, and so far as I know, we do not know if there will be any direct routes between Norway and Canada. Hopefully, one day we will have some routes, but as it is today, I haven't seen any proposals or anything in this respect.

Thank you.

The Chair: Thank you, Mr. Vatne, again, and Mr. Miller.

Mr. Julian.

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

I apologize for being late. We're a very large country, as you know, and I just flew in from Vancouver and the plane arrived late. So I apologize for missing your presentation. I'm sure it was very interesting.

I hope, particularly Mr. Antonsson and Mr. Vatne, that you've had the pleasure of coming to British Columbia and going to the Scandinavian cultural centre that's in Burnaby, British Columbia. I was there on the weekend, and it is a centre of Scandinavian culture for British Columbia.

I wanted to start off by asking all three of you what your trade promotion budgets are, first for Canada, and secondly worldwide. In other words, in each of your respective countries, how much money do you put into product and service trade promotion, direct promotion of Icelandic, Norwegian, or Swiss products abroad?

H.E. Markús Antonsson: I must admit that I am unable to answer that question about the amounts in the world. We have close cooperation between the individual businesses in Iceland and the Trade Council of Iceland. They arrange for commercial delegations from Iceland to the individual market areas of the world with high potential for the Icelandic businesses.

It must be admitted that Canada, with the lack of this free trade agreement that has been in the works over this extended period of time, has not been considered very attractive for Icelandic businesses. However, I know that business visits are being arranged to the Maritimes, to start with, and to Quebec and Ontario. We will have, probably in cooperation with the Canadian embassy in Iceland and the Trade Council of Iceland, such visits arranged for this coming summer and fall.

This is on the agenda now. I believe there will soon be increasing interest in Canada. The Secretary of State for Foreign Affairs and International Trade has announced that with the ratification of the treaty, she will put a bill before Parliament stipulating the abolition of all import tariffs on Canadian goods according to the free trade agreement.

Mr. Peter Julian: Your Excellency, I'm actually talking about the budget that you had available here in the embassy for Canada, for product promotion of Icelandic products. You're saying there's no budget right now?

H.E. Markús Antonsson: No, not here at the embassy. I'm sorry if I misunderstood the question. The Trade Council of Iceland is taking care of this, not the individual embassies.

•(1645)

Mr. Peter Julian: So there is no service promotion budget at all for Canada from the Government of Iceland? It's not a trick question.

H.E. Markús Antonsson: No, there have been other priorities—

Mr. Peter Julian: That's fine.

H.E. Markús Antonsson: —because of the lack of conclusion of this agreement.

Mr. Peter Julian: Yes, but worldwide the Government of Iceland would have a budget for export promotion. Every country does.

H.E. Markús Antonsson: Yes, they do.

Mr. Peter Julian: And what is the figure?

H.E. Markús Antonsson: I don't have that exactly.

Mr. Peter Julian: Would you be able to provide that to the committee?

H.E. Markús Antonsson: Yes, I can find out.

Mr. Peter Julian: Thank you.

Mr. Per Øystein Vatne: Maybe we'll go to the embassy first.

We have a project-specific budget. That means that prior to a specific date every year we have to apply to the Minister of Trade and Industry in Norway to get funding for certain projects. It can be anything from fish farming to oil sands, but we have to be project specific. That's the embassy part of it.

As to the promotion in Canada, we have an institution called Innovation Norway. They have an office in Toronto that is responsible for Canada. I don't know their budget, but they are doing a great job with Canada. This is an organization that came more or less from the old Trade Council, but we had a reorganization in Norway some years ago. They give advice and supply market surveys. That's the organization with a budget for promoting Norwegian industry in Canada.

Mr. Peter Julian: Do you have any idea what that budget is?

Mr. Per Øystein Vatne: No, I'm sorry.

Mr. Peter Julian: Is that something you could provide to us?

Mr. Per Øystein Vatne: I'm not sure if it's public, but if it's public, I will provide you with the information.

Mr. Peter Julian: If there is a worldwide through the international trade ministry of Norway, if those budget documents are available as well for trade promotion, that would be very helpful.

Mr. Per Øystein Vatne: Yes.

Mr. Nicolas Bruehl: It's quite similar to the Norwegian. The embassy is acting when there are some specific events. That will be the case now after ratification of the Canada-EFTA agreement. So there will be some events together with the Norwegian and the Iceland colleagues as well. There is some kind of planning. Worldwide, speaking for Switzerland, I can't give you an exact figure, but as the Icelandic ambassador mentioned, with the base of this new agreement there will be then a strengthening as well on this part, I'm sure.

Mr. Peter Julian: I ask that because for Canada our trade promotion budget for all four EFTA countries was \$99,000 last year. We're talking about very little in comparative terms, and this has been a historic problem we've seen in Canada right around the world. We're spending very little in trade product promotion, whereas other countries—Australia being just one example, the European Community being another—outspend us 50 to 400 times to 1. Canada has traditionally been very weak in that. Any information you have about how that budget is fixed and what that budget has been up until now in Canada would be very helpful to us.

I'd like to move on to research and development.

The Chair: You'll have to ask that next round, Mr. Julian. That's eight minutes. We have been courteous.

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

The Chair: Mr. Maloney.

Mr. John Maloney (Welland, Lib.): Mr. Vatne, you indicated that there were no plans to reintroduce subsidies on shipbuilding. You abolished subsidies in 2000 and then you temporarily reintroduced them three years later for basically a two-year period. What was the reason they were reintroduced, and do you envisage these situations happening again that may impact this agreement?

Mr. Per Øystein Vatne: Mr. Chairman, as a member of the EEA agreement, the EEA regulations regarding shipbuilding subsidies are applicable to Norway as a part of the EEA agreement. Until the end of 2000, it was possible for Norwegian shipyards to get 9% of the total value of the contract as a subsidy. With regard to projects below the value of €10 million, the subsidy was 4.5% of the contract value. A precondition in order to receive the subsidy granted was that the ship was ready to be delivered within three years after the contract had been signed. This regime was terminated on December 31, 2000, and the last ship that was granted such a subsidy was delivered on April 30, 2004.

As previously mentioned and as you mentioned, honourable member, the temporary scheme for shipbuilding subsidies of 6% for certain categories of ships was implemented in 2003 in accordance with that EU scheme. The EU scheme was implemented as a result of the case brought by the EU against Korea in the WTO. As was

correctly stated, this measure was in effect from March 15, 2003, until March 31, 2005.

We were following an EU measure. What will happen in the future is of course impossible to predict, but we are following the EU. As a member of the EEA, we are quite close to the EU system as such in this respect.

• (1650)

Mr. John Maloney: If in fact you felt you had to reintroduce subsidies, would this trigger any retaliatory measures on the part of Canada?

Mr. Per Øystein Vatne: I'm sorry, I'm not in a position to answer that question.

Mr. John Maloney: All right.

Mr. Antonsson, you indicated that in your discussions or negotiations with the EU, fisheries policy became problematic, and it would appear that ended the discussions or perhaps helped end the discussions. What was problematic regarding fisheries policy with the EU that would appear not to have been problematic with Canada?

H.E. Markús Antonsson: Mr. Chairman, it was the basic question of territorial waters and how we could secure our own 200-mile fishing limits without allowing fishing fleets from other European Union countries to enter the economic zone around Iceland. We are just securing our exclusive rights to exploit the marine resources.

This is also the case with Norway. Norway has not entered the European Union mainly because of the fisheries policy and the preservation of the territorial limits.

Mr. John Maloney: And that's not a problem with us?

H.E. Markús Antonsson: No, no.

Mr. John Maloney: I have a question perhaps for all three of you. We seem to have half an agreement, because finances, public procurement, and investment have been left off, perhaps for renegotiating at a subsequent time. Was there any reason for this happening? And are there plans to continue to renegotiate in those areas?

Mr. Nicolas Bruehl: It's foreseen in the agreement that after three years of ratification there can be further discussions about these issues. At the moment, I don't have the capacity to give you the information about whether that will be the case, but I could imagine, personally, that there is a basis to continue, and if there is interest from both sides, they will go to these issues, I'm sure.

Mr. John Maloney: Thank you, Mr. Chair. That completes my questions.

The Chair: Thank you, Mr. Maloney.

[Translation]

Mr. Cardin, do you have any questions?

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

Good afternoon and welcome, gentlemen.

I do not recall which one of you said that you were involved in the Doha round. Not much is happening on the Doha front at the moment. I imagine some countries are discussing it, given the food and agriculture questions raised in the negotiations.

My question is for all three of you. In the context of the Doha round negotiations, do you think that Canada's supply management constitutes a subsidy, something that should be eliminated?

•(1655)

[English]

H.E. Markús Antonsson: I mentioned the Doha Round just briefly, because the EFTA ministers of foreign affairs and international trade expressed their concern that this process was slow-going. They had a meeting in Geneva in January. You have been reading this in news releases and communiqués after that meeting. This is in general terms just to underline that there is interest in having these talks become more productive than they are. That is a view we have heard as well here, in the Department of International Trade in Ottawa, that people are aiming to continue these negotiations and want to have them continue.

About the results in individual categories, I'm not able to comment.

The Chair: Thank you, Your Excellency, and thank you, Monsieur Cardin.

We're going to have to keep it brief if we want to close at five o'clock. I'll allow a very brief question to complete the round.

Mr. Cannan.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair, and thank you to our witnesses.

I'll be really quick. I know this has been about 10 years in the works, so it's good to see it finally coming to a conclusion.

One of the things I wanted to see is what the honourable member Mr. Bains alluded to, having an even playing field with our competitors who have an agreement. Right now, the U.S. does not have an agreement with EFTA; is that correct? So we'll have a foot in the door before them, which I think is very positive, this being the first free trade agreement with transcontinental European countries. This is very encouraging.

What I'd like to know from Switzerland concerns some of the Swiss companies. Now that you have announced this EFTA agreement, have you had some additional companies coming to you looking to do business with Canada?

Mr. Nicolas Bruehl: I can't tell you specific names, but we know that the interest is there and it is big. Canada has a very good image in Switzerland. Thanks to this agreement, once it is in force it will be an excellent basis, and there will be some Swiss firms, for sure. I can

give you some names. But the industry will be there because Canada is very interesting.

Specifically, we know that the universities in Switzerland are really keen to have stronger cooperation with Canadian universities, so there will be interesting projects for sure.

Mr. Ron Cannan: You commented that there are no subsidies for the shipbuilding industry, which seems to level the playing field. It has taken almost a decade to get this far. Do you feel that through negotiations going back and forth it's been a fair trade, a free trade, and it's been balanced in the sense that there are winners on both sides of the table?

Mr. Per Øystein Vatne: Of course we want free trade for all ships, but negotiations are always about giving and taking. That means we have to create winners on both sides, and this was the best result we could get in order to have an agreement. That's where we are today.

Thank you.

Mr. Ron Cannan: We talked about fair trade. The issue of environmental and labour standards is something that concerns all of us around the table here. Can you elaborate about your standards and working within Canada? My understanding, from talking with some of the witnesses and other individuals from your country—and we had an opportunity to meet with some of the members of Parliament as well—is that some of your environmental and labour standards are even higher than Canada's. Is that correct? We won't be lowering our standards, let's put it that way.

•(1700)

H.E. Markús Antonsson: Based on my experience here and what I have been following in the newspapers and reports in the media, in some instances we have stricter rules, and we're probably more lax on other issues. I don't have the full picture.

Mr. Ron Cannan: Thank you very much.

The Chair: Thank you, Mr. Cannan.

That brings us to the conclusion of today's hearings on the free trade agreement between Canada and the states of the European Free Trade Association.

I want to particularly thank our witnesses today. We're honoured by your presence. Thank you again to the ambassador of Iceland to Canada, Markús Örn Antonsson; the first secretary of the Embassy of Kingdom of Norway, Per Øystein Vatne; and the deputy head of mission from the Embassy of Switzerland, Nicolas Bruehl. I very much appreciate your attendance today and your responses to our questions. Thank you very much again.

[Proceedings continue in camera]

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