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## **Standing Committee on International Trade**

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**EVIDENCE**

**Tuesday, May 1, 2012**

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**Chair**

**The Honourable Rob Merrifield**



## Standing Committee on International Trade

Tuesday, May 1, 2012

• (1100)

[English]

**The Chair (Hon. Rob Merrifield (Yellowhead, CPC)):** I'd like to call the meeting to order.

I want to thank our witnesses for being here.

We as a committee have completed a study on the EU free trade agreement. We just finished passing a piece of legislation, which has gone back to the House, on the Jordan free trade agreement. We're waiting for the one on Panama. It has yet to come from the House.

We want to embark on a very exciting, comprehensive, and high-level economic partnership agreement between Canada and Japan.

We have with us the Department of Foreign Affairs and International Trade. We have some people from the Department of Agriculture and Agri-Food.

Mr. Ian Burney, you have a presentation for the committee. If you would introduce your entourage, we will yield the floor to you. We look forward to what you have to share with the committee.

**Mr. Ian Burney (Assistant Deputy Minister, Trade Policy and Negotiations Branch, Department of Foreign Affairs and International Trade):** Thank you very much, Mr. Chairman.

As you've heard, my name is Ian Burney. I'm the assistant deputy minister for trade policy and negotiations at the Department of Foreign Affairs and International Trade.

It's certainly my pleasure to be here today to speak to you on the topic of the launch of Canada-Japan free trade agreement negotiations, or to use Japan's preferred terminology, economic partnership agreement.

As you've noticed, I have an entourage with me, to which I intend to pass all the tough questions. Let me introduce them.

Marvin Hildebrand is the director general of the trade negotiations bureau at DFAIT. Phil Calvert is the director general of the north Asia relations bureau, which covers Japan. Dany Carriere is the director of the trade policy and negotiations division. And from Agriculture and Agri-Food Canada, we have Denis Landreville, who is the lead negotiator for regional agreements in the trade negotiations division.

[Translation]

I will begin by giving you an overview of the context. Prime Minister Harper and Japanese Prime Minister Nova announced the launch of negotiations towards a Canada-Japan economic partner-

ship agreement, or EPA, on March 25, 2012, in Tokyo. This initiative is an opportunity to expand Canada's trade and investment with one of the world's wealthiest and most innovative economies, and is consistent with the government's ambitious pro-trade plan.

As you know, the pursuit of trade agreements is a key element of Canada's broader economic plan. The government's goal is to create jobs, growth and long-term prosperity for Canadians and Canadian businesses by expanding trade and economic opportunities abroad, an objective recently reaffirmed in the federal budget.

Accordingly, Canada has been pursuing an impressive—and growing—number of trade initiatives with key trade and investment partners.

[English]

Since 2006 Canada has concluded free trade agreements with nine countries, the four European Free Trade Association states of Iceland, Norway, Switzerland, and Liechtenstein, followed by Peru, Colombia, Jordan, Panama, and most recently Honduras. Many more are in the works, including free trade negotiations with the EU, Canada's most significant trade initiative since the signing of the NAFTA nearly 20 years ago.

In addition to the ambitious pursuit of free trade agreements, Canada is also expanding its network of foreign investment promotion and protection agreements—FIPAs—science and technology cooperation agreements, and air services agreements. The overall objective is to solidify and expand Canadian access to global markets.

Let me now turn to Japan, which is the world's third-largest national economy, with a GDP of \$5.8 trillion in 2011. It's also one of Canada's most important economic and commercial partners.

Japan was Canada's fourth-largest merchandise export market in 2011, with exports totalling \$10.7 billion. It was also our fourth-largest supplier of imports for the same year, at \$13.1 billion.

Beyond trade in goods, Canadian exports of services to Japan reached nearly \$1.3 billion in 2011, while our service imports from Japan were valued at \$1.5 billion the same year.

In 2011 Japan was Canada's single largest source of foreign direct investment from Asia, even ahead of China. At the end of 2011 Japan had a foreign direct investment stock of \$12.8 billion in Canada. More than 330 Japanese subsidiaries and affiliate companies now operate in Canada, employing tens of thousands of Canadians. Not surprisingly, many Canadian companies are active in Japan as well, with the stock of Canadian direct investment in Japan totalling \$8.4 billion in 2011. For example, companies such as Manulife, Magna, Linamar, Celestica, Bombardier, and Scotiabank all have a direct and active presence in the Japanese market.

[Translation]

A free trade agreement with Japan would build on these strengths to deepen our trade and investment ties with this influential economy. In fact, the department's chief economist projects that a Canada-Japan free trade agreement would generate billions of dollars in additional trade and commerce between our two countries.

On March 7, 2012, Canada and Japan released the *Report of the Joint Study on the Possibility of a Canada-Japan Economic Partnership Agreement*, which examined the potential of an economic partnership agreement between our two countries. According to the findings, there remains much untapped potential in our commercial relationship. A bilateral free trade agreement with Japan could increase Canada's GDP by US\$3.8 billion, and boost exports to Japan by as much as 67%, or \$7 billion over current exports.

The joint study report further concludes that an agreement would deliver improved consumer welfare, along with strengthened bilateral trade opportunities for energy, other natural resources, food products, manufactured goods, forestry products, and fish and seafood products.

• (1105)

[English]

But the benefits of pursuing an FTA with Japan go well beyond commercial gains, as compelling as those are. It would bolster Canada's reputation on the world stage as an FTA partner. It would also contribute to Canada's growing trade policy engagement in Asia, building on our negotiations with India, Korea, and our recently launched exploratory discussions with Thailand.

As the committee is no doubt aware, Canada and Japan have also both expressed an interest in the Trans-Pacific Partnership negotiations. A bilateral FTA with Japan and our shared interest in the TPP negotiations are mutually supportive and compatible. Bilateral negotiation would allow for both Canada and Japan to advance our respective interests with one another, while the broader TPP process could enhance greater regional economic integration, a long-term goal for the Asia-Pacific region.

The Canada-Japan FTA initiative represents a strategic opportunity that has been years in the making. In November 2010 Japan's cabinet adopted the basic policy on comprehensive economic partnerships, which seeks to reform Japan's domestic trade and agricultural policies. Japan has shown strong interest in comprehensive negotiations with Canada. The joint study found "sufficient common ground to launch the negotiation of a comprehensive and high-level economic partnership agreement".

With that objective in mind, Canada will seek the elimination of Japan's tariffs in areas of export interest to Canada, including in the agriculture, fish and seafood, forestry, and industrial good sectors. The negotiations will also seek to address non-tariff barriers and to create a more secure regulatory regime for services, trade, and investment, including more secure market access in services sectors of export interest, such as professional services and energy-related services. We will also seek to strengthen and enhance our already large two-way investment flows by negotiating high-standard investment provisions.

In addition, Canada and Japan are considering ways in which an agreement should reflect our mutual commitment to high standards of environmental protection and labour practices. Japan is one of the world's leading innovators and one of Canada's most vital trade partners. An FTA with Japan would represent a critical piece in Canada's ambitious pro-trade plan and a valuable opportunity to strengthen our growing engagement in Asia. What's more, this is an important time to be negotiating with Japan, given the ongoing public debate in Japan on key domestic reform initiatives and the prospect that Japan will become much more active in international trade negotiations in the years ahead.

[Translation]

It is also important to note, Mr. Chairman, that Canada engaged in extensive consultations prior to the launch of these negotiations, including through the *Canada Gazette* and numerous meetings with Canadian stakeholders.

Support from the Canadian business community for this initiative has been overwhelming. Many stakeholders have publicly expressed their support for a FTA with Japan since the announcement last month, including the Canadian Manufacturers & Exporters, the Japan Automobile Manufacturers Association of Canada, Toyota Canada, the Canadian Association of Petroleum Producers, the Canadian Meat Council, the Canadian Canola Growers Association, and the Forest Products Association of Canada.

Canada has also engaged in extensive consultations with the provinces and territories, which were strongly supportive of the joint study process and the launch of negotiations. British Columbia and Quebec have been particularly vocal in their support.

[English]

In terms of next steps, both Canada and Japan will identify chief negotiators in the near future. On May 8, I will be in Tokyo and will meet with key Japanese government ministries. My principal objective is to begin discussions with Japan on some of the organizational and process issues related to preparing for the first round of negotiations.

In conclusion, Mr. Chairman, free trade negotiations are increasingly important for promoting Canadian commercial interests around the world, and hence for creating prosperity here at home. Our competitors are negotiating agreements at a pace never before seen. Canada has risen to the challenge with our own ambitious pro-trade plan, and the Canada-Japan initiative is a key element of that. Clearly, we are only just getting going with Japan, but the government is committed to pursuing an agreement that promotes Canada's wide-ranging interests in this market. In so doing, we will continue to consult closely with all interested Canadians.

We thank the committee for this opportunity. My team and I look forward to hearing your views, which will help shape our negotiating positions, and to responding to any questions you may have.

Thank you.

•(1110)

**The Chair:** Thank you very much for the initial overview of the potential that we have before us with regard to a trade agreement with Japan and Canada.

We will now go to our question and answer portion of the meeting. We will start with Mr. Don Davies.

The floor is yours, sir. You have seven minutes.

**Mr. Don Davies (Vancouver Kingsway, NDP):** Thank you, Mr. Burney, and all of the other witnesses for being with us today.

The report of the joint study on the possibility of a Canada-Japan economic partnership concludes that such an agreement in general would be an economic benefit to both countries. Have any industries or sectors been identified that you think would be losers by any such agreement?

**Mr. Ian Burney:** What I can say is that during the public consultation process that we had last year in the context of the joint study, we received something like 32 submissions from Canadian stakeholders. Of those, two were in the category of critical or concerned, 26 were in favour, and four were neutral. The ones that were in the area of concern came from the CAW and from the CVMA, the Canadian Vehicle Manufacturers Association. It would be fair to say that there may be some concerns on the part of the U. S.-owned Canadian manufacturers in Canada about the possible implications of eliminating the tariff in the context of a free trade agreement. That's on our side.

**Mr. Don Davies:** Okay. That's from the submissions you received. Has the department identified any sectors or industries they think might not be net winners from such an agreement, beyond those two areas?

**Mr. Ian Burney:** The department itself is not indicating that even the automotive sector would be a loser. In fact, we would see some opportunities in the Japanese market. In fact, the basis for the concern the Canadian Vehicle Manufacturers Association conveyed to us is the perception that the Japanese market is closed through a variety of non-tariff measures. The point we have made to them is that it's through a negotiation that we would have the best opportunity to address their concerns.

I guess the answer to your question is no. Our assessment is that an FTA with Japan would be a plus for Canadian business.

**Mr. Don Davies:** Would it be a plus across all sectors and industries? You can't identify any industries or sectors you think would be losers from such an agreement? Is that your testimony?

**Mr. Ian Burney:** We expected that stakeholders who had perceived that an agreement of this nature would be negative for them would have brought their concerns to our attention.

**Mr. Don Davies:** Regionally, would an increase in trade relations between the two countries benefit a certain region or regions in Canada more than others, in your view?

**Mr. Ian Burney:** Given that Japan is the world's third-largest economy, and the relationship is as big as it is, we would expect that the benefits would be spread across the country and that there would be benefits in all regions.

**Mr. Don Davies:** Okay.

My numbers might be a bit off on this, Mr. Burney, but I am led to believe that Canada's trade deficit in manufactured goods was about \$18 billion in 2005. I think it's approaching \$80 billion today. The report points out that Canada exports mostly raw or almost raw resources, and imports goods that are value-added. Given the current imbalance in our trade relationship with Japan, do you think that the trade deficit in manufactured items would be accelerated or decreased by signing an agreement with Japan?

**Mr. Ian Burney:** The first point I would make is that the trade balance is actually pretty even.

**Mr. Don Davies:** It's even in manufactured goods?

**Mr. Ian Burney:** No, it's even in trade as a whole. Our exports and imports from Japan are pretty close. In fact, according to Japanese import statistics, it's almost in perfect balance.

I don't have the detailed breakdown in terms of sector by sector, but the point the joint study makes is that our trade is broadly complementary. That is, we're each exporting products we specialize in.

**Mr. Don Davies:** Do you mean it's complementary in aggregate?

**Mr. Ian Burney:** In aggregate, absolutely.

**Mr. Don Davies:** What I want to drill into, Mr. Burney, is manufactured goods. I think the thesis I am putting to you is that Canada is exporting a lot of raw resources and primary goods, and we're importing a lot of manufactured items. Is there a trade deficit or imbalance in that respect?

**Mr. Ian Burney:** I think the statistics are pretty clear that we import more manufactured goods from Japan than we export. But I'm not sure that I would accept the thesis that it's all raw materials and low-value products. There are a lot of high-value products within the resource sectors that are going to Japan, and the percentage of our exports to Japan that are in high-valued manufactured and processed goods is actually growing as well. It's entirely possible that trend would be accelerated in the context of free trade.

•(1115)

**Mr. Don Davies:** Okay.

I know we're lucky enough to have some beef producers in the room, so I want to turn to agriculture briefly. Agriculture and agrifood producers in Canada are significant exporters to Japan now. We're led to understand that Japan has historic protectionist policies with respect to its agriculture sectors. So I'm wondering what Canada's approach to achieving better access to Japan's market in the agricultural sector consists of, both in relation to tariff and non-tariff barriers. Can you give us some information on that?

**Mr. Ian Burney:** Well, I'll start and perhaps Denis can add to this.

There's no question that, from a Canadian standpoint, seeking better access in agriculture, as well as fish and forestry products, will be a high priority for us. It constitutes nearly half of our exports to Japan now, and those are the areas where the levels of protection in Japan are relatively highest. So that would be very much what we will be going to the table to pursue.

You're quite right that the issues are not confined to tariffs. So in addition to seeking tariff elimination, we would be looking at a range of non-tariff measures as well: everything from SPS and TBT issues to regulatory barriers and other mechanisms that impede the flow of agricultural products into the Japanese market.

So we would be coming to the table from the standpoint that everything is on the table for discussion, but certainly we don't underestimate the challenges in that regard, because these are very sensitive areas in Japan.

**Mr. Don Davies:** On Canada's supply management system, we met last week with the egg producers, and I think I can say that all parties have been quite strong in our support for Canada's supply management system. Can we go into these negotiations confident that Canada would not be negotiating away our supply management system in the agricultural sector?

**Mr. Ian Burney:** I think you can be confident that we would be not negotiating away our supply management system. I think I could also add that during all of the exploratory discussions we've had with Japan, we've been given no reason to believe that represents an offensive interest for them.

**Mr. Don Davies:** Okay.

Am I out of time?

**The Chair:** You could have one more very quick one, maybe, if it's very quick.

**Mr. Don Davies:** Thank you, Mr. Chairman.

You said the CAW put in a submission. Have projections been done regarding the impact this deal would have on the automotive sector in Canada and specifically on automotive jobs in our country?

**Mr. Ian Burney:** Yes, projections have been done. In fact, back in 2006-2007 we commissioned a study on the possible impact of free trade with Korea, Japan, and the EU in the automotive sector. That study, which is now a bit dated, has just been updated. It's undergoing final translation and will likely be on our website soon.

The new study, like the old one, projects a very minimal impact on the Canadian automotive sector. Specifically, it projects a possible impact on Canadian production of less than 0.3%, a decrease of 0.27%.

**The Chair:** Thank you very much.

Mr. Keddy.

**Mr. Gerald Keddy (South Shore—St. Margaret's, CPC):** Thank you, Mr. Chairman.

Welcome to our witnesses. I will be splitting my time with Mr. Holder. I know all my colleagues here have a number of questions they want to get on the record, so I'll try to be brief in my quick submission.

This is a great agreement, one on which the door of opportunity has opened, and we absolutely need to take advantage of it. I'm very pleased to hear we're moving expeditiously and you'll be in Japan on May 8.

Mr. Burney, there is one little irritant that's been there for a while. I think I've spoken to you and a number of your colleagues about it, and that is the paralytic shellfish poisoning regulations Japan has on Canadian lobster. We have an opportunity here to re-address that.

Quite frankly, what has happened is that our lobster is exported into the United States. The United States relabels it as American lobster and ships it in without any PSP restrictions.

This is a multi-million-dollar industry. We used to have 50-some exporters that sent lobsters to Japan; we now have two. Rhode Island, which is a very small state that wouldn't produce more than a couple of hundred two-and-a-half to three-pound lobsters—I might be exaggerating a little in that comment, but not a lot of lobsters of the size you want to ship to Japan—has increased its production by a thousandfold. That's all Canadian lobster that's being relabelled.

So if you could re-address that and have a chance to put that back on the table, I think it's extremely opportune.

• (1120)

**Mr. Ian Burney:** Thank you very much for that.

I am not aware of the specifics of that issue. I will certainly brief myself on it, and you can be confident that we'll be carrying that into the discussions.

**Mr. Gerald Keddy:** I would appreciate that, and so would seafood producers in Atlantic Canada. Beyond that, keep up the good work.

I know Mr. Holder has questions.

**Mr. Ed Holder (London West, CPC):** Thank you, Chair.

I thank our guests for being here today.

I want to reinforce Mr. Keddy's point about the lobster. I would ask you to take it back as a critical part of our Atlantic economy, not just because I have a Cape Breton mother, but I would tell you it's critical that this be done for the sake of the industry. I appreciate the serious attention you're giving to that.

I'd like to move over to the auto side. I'm from London, Ontario, Canada's tenth-largest city. We've been impacted very directly by the auto manufacturing. I was pleased that you thought there would be very minimal impact on the auto sector. I was hoping it would go the other way, though, frankly. I was hoping to hear that there might be some potential for growth there.

Mr. Burney, you mentioned that the CAW had expressed concerns, that they were one of two that put in some views to the contrary. Are you in a position to share some of what their concerns are? I'm not aware that they have supported any free trade agreement in the history of negotiating free trade agreements, and frankly they're a very loud force in southwestern Ontario and in my city in particular. Can I ask you what concerns they expressed?

**Mr. Ian Burney:** Well, the concerns that have been expressed... And you're right: to my knowledge, the CAW has opposed all trade initiatives the government has taken. It was expressed as a concern that trade liberalization with Japan would lead to job losses. That's why the government felt that it was important, in light of those concerns, to ensure that we had the best analytical capacity put on those questions. They have arisen in the context of our negotiations with Korea. They have arisen in the context of our negotiations with the Europeans and will be an issue vis-à-vis Japan. But that's why the analysis I pointed to was so important, which shows that the impact would be as minimal as I've indicated, less than 0.3%.

**Mr. Ed Holder:** Mr. Burney, what I thought I heard you say was that was in relation to Japan and Korea and.... Help me.

**Mr. Ian Burney:** The EU.

**Mr. Ed Holder:** And the EU. Specifically, on Japan, have you isolated that, and can you make a comment on the impact specifically to Japan?

**Mr. Ian Burney:** I should be clear. The study looked at all three, but the numbers I presented were for the impact only of Japan. But the numbers in the study exist for Korea, for Japan, or for the EU, and for all three together. Under any scenario, the impact is well under 1% of production in Canada.

The reason is that the vast majority of cars produced in Canada are sold in the United States, and so would not be impacted by a trade agreement between Canada and anybody else. As well, the Canadian market is already saturated with imports; four out of five cars sold in Canada are imported. So it's likely that if more cars are imported through a free trade agreement, they're going to displace other sources of imports and not Canadian manufacturing.

**Mr. Ed Holder:** With our beef producers here today, could you just explain to us what the current relationship is with exporting beef in whatever fashion we do? What improvements are you looking to make with our negotiations with Japan?

**Mr. Ian Burney:** I think the biggest issue we've had with Japan relates to measures put in place in the wake of BSE. Right now, we have access to beef from cattle under 21 months. We've been seeking an expansion of that for quite some time, and we're pleased that the issue now is before the Japan Food Safety Commission. It operates at arm's length from the Japanese government. There isn't a specific timetable attached to that, but we remain hopeful.

Denis may have further comments he could add to this, that we'll be able to achieve an increase in our access to that market through that process and in parallel seek improved market access through the FTA negotiations.

**Mr. Ed Holder:** On the assumption that the Japanese Food Safety Commission does what it does independent of your negotiations, are there any other areas...?

I'm just going to stay specifically with beef. Perhaps Mr. Landreville might make a comment on any enhancements to Canada's position vis-à-vis exports. It appears what the cattlemen are telling you.

• (1125)

**Mr. Denis Landreville (Lead Negotiator, Regional Agreements, Trade Negotiations Division, Trade Agreements and Negotiations Directorate, Department of Agriculture and Agri-Food):** I think Mr. Burney touched on the SPS and BSE process, and I think that's accurate. We're collaborating and working with authorities on the Japanese side, to provide the information they need to advance that issue.

**Mr. Ed Holder:** What's your expectation? I'm interrupting. I apologize.

**The Chair:** Just very quickly.

**Mr. Ed Holder:** What's your expectation of a resolution? Sometimes in politics we're accused that after all is said and done, there's a lot more said than done. At what point do we raise an expectation, timeframe-wise? I appreciate that in negotiations it's easy to say that. Do you have a sense of timing or of expectation?

**Mr. Denis Landreville:** No, I don't.

**Mr. Ed Holder:** Have you given them any expectation?

**The Chair:** Time has gone.

Madame St-Denis.

[Translation]

**Ms. Lise St-Denis (Saint-Maurice—Champlain, Lib.):** Non-tariff barriers are considered a greater obstacle to trade with Japan than tariffs on the free movement of goods and services. Can you begin by explaining to us the difference between these two tariffs?

**Mr. Ian Burney:** The difference between these tariffs?

**Ms. Lise St-Denis:** The difference between non-tariff barriers and tariffs on the free movement of goods and services.

**Mr. Ian Burney:** When one refers to non-tariff barriers, it means things like regulation and technical barriers. In the agricultural sector this can sometimes refer to sanitary and phytosanitary measures, or SPS. It can mean several things, such as customs procedures. In the context of a free trade agreement, we will try to negotiate a chapter on the facilitation of trade to overcome customs procedures, a chapter on SPS in the agricultural sector, and a chapter on technical barriers, to address all of those issues.

**Ms. Lise St-Denis:** What are the chances that the two parties will agree on these matters? Are they open to that?

**Mr. Ian Burney:** We are fairly optimistic. In the course of our discussions in the context of the joint study, the approach seems to have been similar to the one used in free trade agreements we have signed in the past. This is also the case for Japan. It is a very complex country, which implies many things. I am not saying that it will be easy, but as it now stands, we are fairly optimistic.

**Ms. Lise St-Denis:** In your presentation, you said that two provinces in particular had been extremely positive: Quebec and British Columbia. In regard to which product or which aspect were they so positive?

**Mr. Ian Burney:** These are the two provinces which made a written submission, but I do not think they specified in relation to which products. In the west, that would involve forestry products and manufacturing, and in Quebec, there would be a whole range of products.

**Ms. Lise St-Denis:** A whole range of products, or natural resources?

**Mr. Ian Burney:** Yes, as well as the manufacturing, aerospace, chemical and pharmaceutical sectors. There are a lot of opportunities in Quebec and in the west.

**Ms. Lise St-Denis:** Would Canada and Japan abandon negotiations if they each were admitted into the Atlantic-Pacific treaty?

**Mr. Ian Burney:** Do you mean the Trans-Pacific Partnership?

**Ms. Lise St-Denis:** Yes.

**Mr. Ian Burney:** We are pursuing both agreements simultaneously. We would really like to be part of the Trans-Pacific Partnership, and Japan is also holding consultations to participate in the partnership. We believe that it is worth pursuing bilateral negotiations at the same time. There is no guarantee that we will become part of the Trans-Pacific Partnership. But even if we did, there is no guarantee that there would be a resolution. It could take a long time and I therefore believe that it is worth pursuing the bilateral process, as well.

**Ms. Lise St-Denis:** Thank you.

[English]

**The Chair:** Thank you very much.

We'll now move to Mr. Cannan.

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

My thanks to Mr. Burney and the witnesses. It's always a pleasure to have you here as we move to expand our robust trade agenda.

I wanted to follow up on Mr. Holder's comment about the timeline. We have our cattle association and agriculture community, and working in conjunction is a big issue. I know that we have the trade office working overtime and deployed across the world. Mr. Fast is living out of a suitcase and opening doors around the world. I think he's in Australia or New Zealand right now.

So is there any general timeline? I see you're going to go May 8 and then take the lay of the land from there. Maybe you could give us a broad perspective on how you see the negotiations unfolding.

• (1130)

**Mr. Ian Burney:** That's a good question, and it's one of the objectives I have next week, to discuss timelines with Japan.

From a Canadian standpoint, we'd like to move this forward as quickly as possible, but it takes two to tango in a negotiation, and we know that both countries have very full dance cards. In the case of Japan, we understand that they will soon be launching negotiations with the European Union. There's the possibility of a trilateral

negotiation that's being discussed among Japan, China, and Korea. It's possible that might end up being a series of bilateral agreements. Japan has been discussing the possibility of negotiating with Mongolia. And from our perspective we also have a multitude of negotiating initiatives.

All I can say is that we would like the process with Japan to move forward as quickly as possible, and we will be exploring further next week what the art of the possible would be.

**Mr. Ron Cannan:** Excellent.

I think we all agree that a transparent rules-based system is going to be beneficial for both countries. I come from the Okanagan in the interior of British Columbia, and forestry is a big economic generator for British Columbia, and also for Quebec, as you mentioned. We have a sister city in Kasugai. I had the privilege of leading a delegation there when I was on city council in 2000. I spent nine days in the country there.

We just had a forest conference not too long ago, and I notice that the industry has reached out—it's just devastating what happened with the earthquake—and is trying to work in partnerships from a compassionate perspective as well to help rebuild their country.

What do you see as the opportunities for the forest sector with a more transparent, rules-based trade agreement in place?

**Mr. Ian Burney:** I think that's one of the sectors where we would hope to see some of the strongest gains. I think the average level of Japanese tariffs is around 4%. The average tariff in the forestry sector is around 3.4%, but there are peaks as high as 10%. In a low-margin business like forest products, that can make a significant difference. There are also a variety of non-tariff issues and regulatory issues that affect the export of wood and wood products that we would want to take a closer look at in the context of the negotiations with Japan as well.

Particularly at a time when diversification is so important for the industry, I think we would be making maximum efforts to achieve a good outcome in the forestry sector for Canada.

**Mr. Ron Cannan:** I'd be remiss if I didn't mention that they'll get a couple of cases of Nova Scotia wine and some icewine from.... It's a big export market as well, potentially, for the Asia-Pacific gateway.

I want to follow up on my colleague from the Liberal Party's comment about the non-trade barriers. Could you elaborate on some of the informal barriers that might be a challenge within the present Japanese trade agreement, their trading system?

**Mr. Ian Burney:** Basically, the non-tariff issues we would be addressing in I think three main areas of the agreement.

We would hope to have a chapter on technical barriers to trade, where we would hope to go beyond the commitments in the WTO agreement on technical barriers to trade.

In the agricultural sector, there are the sanitary and phytosanitary measures, where we would hope to have in the agreement a chapter that would lead to a robust consultation mechanism so that we have an ability to address those issues before they become irritants.

In the trade facilitation chapter, we would be addressing a wide range of issues that impede or block trade at the border, so a wide variety of border measures can be addressed through those mechanisms.

It's hard to get specific in terms of the measures we would be targeting in a negotiation. I mentioned that we would be needing to continue to consult with stakeholders, and one of the key objectives of doing that would be to work with industries to identify specific issues that have been a problem so that we can address them in the context of the negotiation. They vary from industry to industry.

• (1135)

**Mr. Ron Cannan:** We don't have FIPA, do we?

**Mr. Ian Burney:** No, we do not. Investment is another area where we would hope to have a significant benefit from having a comprehensive FTA.

**Mr. Ron Cannan:** With a shared services and investment sector, who would be the biggest winners in Canada for that?

**Mr. Ian Burney:** Investment is a real success story in both directions. Both Canada and Japan are extremely active in each other's market, and there are household names in terms of the major Japanese companies that are operating in Canada already: Honda, Toyota, Bridgestone, Canon, Fujitsu, and on and on. They're also increasingly active in the energy sector.

We both have advanced, predictable, stable legal systems, so the incremental benefit of having access to international arbitration between Japan and Canada may not be as great as it would be with a different partner, but the greater security that you have through a rules-based framework will provide an additional level of stability and security for investors seeking to go into those markets.

**Mr. Ron Cannan:** I did the genealogy on the Cannan name, and unfortunately we're not related—different spelling. They're very successful.

I look forward to working together.

Thank you very much.

**The Chair:** I'm not sure the negotiators can do anything with that.

Mr. Sandhu, for five minutes.

**Mr. Jasbir Sandhu (Surrey North, NDP):** Thank you for being here today.

I want to go back to the question my colleague had at the beginning. When any trade agreements are negotiated, obviously we're looking for a net benefit to Canada, and Japan's going to look for a net benefit to their country.

I didn't really hear a clear answer to this, but there must be some industry that is not going to benefit from this trade agreement. You pointed out that there were four submissions out of 32 submissions.... Did the department do any additional research, any additional digging around, to find out which industry, besides the automobile industry, will have a negative impact from it?

**Mr. Ian Burney:** As part of the joint study process, our chief economists on both sides did a comprehensive modelling of the impact of a free trade agreement. This was the source of the number that there would be a GDP benefit of \$3.8 billion on the Canadian

side and \$4.4 billion on the Japanese side, and an expansion of exports of some 67%. That was the modelling work that was done.

In terms of the sector-by-sector impact, as I say, the only sector that has brought any concerns whatsoever to our attention is the American-owned automobile and vehicle manufacturing segment.

If you're trying to look at the impact, you look at areas where the tariffs are still significant and providing a high level of protection. In Canada, frankly, our tariffs are no longer that high, and there are not that many areas where the impact of tariff elimination would be significant in the Canadian economy. It's for this reason that we don't foresee negative impacts in other areas of the economy.

**Mr. Jasbir Sandhu:** You're telling us that every sector in the Canadian economy besides the automobile industry will have some positive impact?

**Mr. Ian Burney:** And even in the automobile industry. What I'm telling you is that we've had some concerns expressed by stakeholders, but there will be positive opportunities as well, because the nature of the concerns that have been expressed to us has often been framed in terms of the challenge of penetrating the Japanese market. So my point would be that if the problem is the closed nature of the Japanese market, how better to address that than in the context of a free trade agreement?

I don't even take it as a given that the impact in the automotive sector would be negative in Canada. I think there actually would be some significant opportunities to be gained through better access into the Japanese market. Now, they don't have tariff barriers, but the argument from the Canadian industry is that through a range of non-tariff-related measures it's a difficult market to penetrate.

**Mr. Jasbir Sandhu:** I come from British Columbia. Forestry is very important to British Columbians. Resource-based goods account for 56% of the exports to Japan right now. Have you looked at that impact? Are we going to be exporting more raw logs to Japan? Or, within this agreement, would we benefit from having value-added products that could be exported to Japan?

• (1140)

**Mr. Ian Burney:** We would be seeking a comprehensive elimination of tariffs and the reduction or elimination of as many non-tariff barriers as possible. This would have impacts across the entire economy. We think the positive impact may be greatest in the areas where the current levels of protection in Japan are highest, and those are agriculture, fish and forestry, and certain industrial areas, but we would expect the benefits to go beyond that.

There's an important point that I think is worth mentioning, which is that beyond the specific elements you have in a free trade agreement, you have positive momentum that is generated in a relationship by having a free trade agreement and all the publicity and attention associated with it. It often generates economic activity that isn't specifically related to any one provision in the agreement. Economists call that the gravity effect, and it's not inconsequential.

**Mr. Jasbir Sandhu:** Do you see a trend that we will see more value-added goods being accepted by or exported to Japan as a result of this agreement?

**Mr. Ian Burney:** That's the current trend, and I think it's entirely possible that a free trade agreement would accelerate that trend.

**The Chair:** Thank you very much.

Mr. Hiebert.

**Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC):** To continue on this theme, the background information we have been provided suggests that Japan has a unique economic situation. In recent years it has seen a decrease of 5.5% in GDP, and then an increase of 4.5%, and then a decrease of 0.7%, and currently a forecast of 1.5% for this year.

To what degree do these economic forecasts have an influence on the potential upside for Canada? With those kinds of varied economic forecasts, and the joint study by the chief economists that you cited in your opening remarks, I'm imagining that the trajectories of those forecasts diverge or spread quite quickly over time. It's hard to know what Japan's economy is going to look like in the future. Do you have any comment on that?

In addition, it is becoming more widely known that Japan's gross public debt, which is currently valued at about 212% of nominal GDP, is the highest ratio in the developed world. When you look at that economy, the ups and downs, the extent of the public debt, to what degree does that factor into our negotiations and forecasts for growth?

**Mr. Ian Burney:** I would say that all else equal, the opportunities would be linked to growth levels in the Japanese economy. To be sure, it would be better for Canada for the Japanese economy to grow, and to grow vigorously. But even in the absence of that, it's important that Canadian companies have the best quality of access to that market that we can provide for them. At a minimum, we want to ensure that our companies can compete on a level playing field in important markets around the world. In the world we currently live in, where there frankly isn't all that much progress happening in the multilateral talks, the game has become competitive bilateralism. What we absolutely need to avoid is a situation where our companies are at a competitive disadvantage, particularly in huge markets like Japan's.

I think the initiative should be looked at from that perspective, that we don't want to find ourselves sometime down the road without preferential access in that market, after everybody else has gone ahead and negotiated preferential access. We still have an early mover advantage, and that's a fairly significant point.

**Mr. Russ Hiebert:** With our trade negotiations with the European Union, we've taken a negative list approach. Do you anticipate that a similar approach would be taken with Japan?

**Mr. Ian Burney:** If you're talking about services and investment, that's the approach Japan has taken in its negotiations as well. I see no reason why that wouldn't be the methodology we would pursue.

**Mr. Russ Hiebert:** Also, as with the EU, the provinces and territories have played a greater role in these negotiations than we've seen in the past. Would you also see the provinces and territories playing a similar role in a Japan-Canada free trade agreement?

**Mr. Ian Burney:** I'm not sure that I would see a role in terms of direct participation in the negotiations. We would certainly consult the provinces and territories very closely at all stages. There were

some unique circumstances in the Canada-EU negotiations stemming from the overriding priority the EU placed on issues that were within provincial jurisdiction. I don't see a replication of those circumstances.

• (1145)

**Mr. Russ Hiebert:** Like procurement.

**Mr. Ian Burney:** Provincial procurement in particular was an overriding priority, and is an overriding priority for the Europeans.

**Mr. Russ Hiebert:** But you don't see that in the Japanese one?

**Mr. Ian Burney:** I don't see the same dynamic happening in this negotiation that would cause us to go down the same path in terms of model of representation.

**Mr. Russ Hiebert:** What opportunities would become available to Canadian businesses in the areas of services? I ask that question in the context of the fact that 75% of Japan's GDP is made up of services. The Japanese are experts in that field. Where do you see the opportunity for Canadian businesses to compete in that kind of environment?

**Mr. Ian Burney:** It's very substantial, and we have a very large presence of financial service providers already in the Japanese market. Manulife has a very large business, as do some of the major Canadian banks. We think there are opportunities for growth there. In terms of the professional service categories, architects and engineers and so forth, and in the whole range of energy services, to name just a few, we think there are enormous opportunities in the Japanese market.

Through a free trade agreement, we would be negotiating better access and more secure access across virtually the entire range of service categories. That would be one of the areas where we would expect to see significant benefit.

**The Chair:** Thank you very much.

Mr. Davies.

**Mr. Don Davies:** Thank you, Mr. Chairman.

Sorry, I didn't understand your answer to the question about the positive or negative list with respect to service negotiations. Is it a positive or negative list?

**Mr. Ian Burney:** It's a negative list.

**Mr. Don Davies:** Thank you.

Mr. Burney, I want to explore the idea of the modelling. You've mentioned it. We've done some modelling, and it reflects net benefits of \$3 billion plus for Canada and \$4 billion plus for Japan. I know that economic simulation exercises are not an exact science and have some limitations.

There have been some important concerns raised regarding the assumptions made of previous CGE modelling exercises, so I want to explore that a bit. When you did the Japan modelling exercise, did we assume full employment in both countries as part of that exercise?

**Mr. Ian Burney:** I believe so. We have our modelling expert in the gallery, and he can verify a few questions.

**Mr. Don Davies:** You think the answer would be yes.

**Mr. Ian Burney:** The answer is yes.

**Mr. Don Davies:** Did you assume no international capital mobility?

**Mr. Ian Burney:** We did assume capital mobility.

**Mr. Don Davies:** Did you assume a state of balanced trade, neither deficit nor surplus?

**Mr. Ian Burney:** Would it be easier to call our modelling expert to the table?

**Mr. Don Davies:** Sure.

**The Chair:** You can come forward.

**Mr. Don Davies:** My last question was did you assume a state of balanced trade, neither surplus nor deficit?

**Mr. Shenjie Chen (Head, Research Projects Unit, Department of Foreign Affairs and International Trade):** No, we didn't make that assumption.

**Mr. Don Davies:** Did you make any assumption about a trade deficit or surplus?

**Mr. Shenjie Chen:** No.

**Mr. Don Davies:** You assume full employment between the countries, but that's not the case. We have unemployment in Canada officially somewhere in the 7% to 7.5% range. I don't know what it is in Japan.

Can you explain that methodology? Why wouldn't you plug in the actual unemployment rates of the countries?

**Mr. Shenjie Chen:** The reason is that trade agreements take time to implement, usually about ten years' time. With negotiations plus implementation, maybe it's more than ten years. Over a ten-year period, it's very hard to make assumptions about employment. That's the international norm. We assume full employment in an economy. That's the assumption we make.

**Mr. Don Davies:** I'm not an economist, but it would seem to me that making an assumption of full employment, even in ten years, is pretty unrealistic. It's highly unlikely that there's going to be full employment in both countries in ten years.

**Mr. Shenjie Chen:** We usually assume full employment to be something around 4% to 5% unemployment. That's the normal range of the unemployment rate.

**Mr. Don Davies:** Are you assuming full employment to be unemployment in the 4% to 5% range?

**Mr. Shenjie Chen:** The normal range is 4% to 5% in an economy, and that's the range we believe is full employment.

**Mr. Don Davies:** I'm just interested in what you used in the modelling. Did you use a full employment assumption in the modelling, or an unemployment rate of 4% to 5% in the model?

• (1150)

**Mr. Shenjie Chen:** Full employment.

**Mr. Don Davies:** Full employment—that's 0%, isn't it?

**Mr. Shenjie Chen:** Full employment means everybody is employed, all the labour.

**Mr. Don Davies:** Is it possible for you to provide to this committee the modelling that went behind this agreement?

**Mr. Shenjie Chen:** Yes.

**Mr. Don Davies:** I'd like to move to the TPP. We know that Canada and Japan have officially indicated they're interested in joining the TPP negotiations. Would bilateral negotiations between Canada and Japan be set aside if both countries, or even one, joined the TPP negotiations?

**Mr. Ian Burney:** That's not our intent. Our intent would be to proceed with both in parallel, even with the assumption that Japan and Canada were both admitted to the TPP, because at that point there could still be no guarantee that the TPP would conclude successfully.

**Mr. Don Davies:** Is it the government's intention to pursue the inclusion of an investor state dispute settlement mechanism in the proposed agreement?

**Mr. Ian Burney:** Yes, that would be a standard feature of our investment chapter.

**The Chair:** Thank you.

We'll now move on to another questioner. We have Mr. Shipley.

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

Thank you for coming out, witnesses.

Again we are at a stage where we have, I think, a great opportunity for Canada, its industries, and its people to move forward and continue to grow Canada's economy.

One of the things my colleague talked about is agriculture. I've been fortunate in my life to be involved in agriculture. BSE put a bit of a barrier up for Canada, and that has now, I was glad to hear... I think that we now have, as we understand it, under 21 and we're likely working towards the 30-and-over situation, where we can market livestock to Japan. We do not sell live. When I was in dairy purebreds, I used to be able to export live cattle and genetics to Japan, but I think in most cases we're talking about processed products that would go.

Could you talk to me a little bit about whether there is any concern or any processing criterion that would have to be in place or that is now a barrier for Canadian products to get into the Japan market? It may be premature, but it sometimes comes up.

**Mr. Ian Burney:** Do you mean with reference to beef specifically?

**Mr. Bev Shipley:** Yes. It would be mostly with the livestock products, whether it's beef or any other products that may end up in the Japanese market.

**Mr. Phil Calvert (Director General, North Asia Bureau, Department of Foreign Affairs and International Trade):** Do you mean procedures in terms of processing—

**Mr. Bev Shipley:** When they're processed, in terms of sanitary... yes.

**Mr. Phil Calvert:** —slaughtering, phytosanitary procedures, marketing cuts, and those sorts of things?

**Mr. Bev Shipley:** I kind of take it that the answer is “not likely”.

**Mr. Phil Calvert:** Not likely. I think everyone has been very focused on expanding the beef access itself and getting that into the market. Canadian beef would be very well accepted.

**Mr. Bev Shipley:** I'm just sort of wondering, as we look across—and the last question led to this one—the Canadian agriculture sector, which ones you would likely see gain the most benefit from having a free trade agreement with Japan. Let's just focus on the agriculture sector right now.

**Mr. Ian Burney:** I'll turn to Denis if he wants to add more to this.

We have substantial export interests in a number of categories within the agricultural area. Japan is a huge market for Canadian pork producers, and we know that they are very excited about the prospect of a free trade agreement with Japan. It's a huge market for us for canola, as it is for wheat, both durum and non-durum. It's a major market for soybeans, for barley, for malt, for beef, frozen french fries, maple products, icewine, and the list goes on. This is one of our largest overseas agricultural markets, with exports in the neighbourhood of \$4 billion last year. This is an area where Japanese tariffs average over 17%. So it's a long list and it's an area where we think there could be very substantial benefits for Canadian companies.

**Mr. Bev Shipley:** Something that was brought up earlier was about non-tariff barriers and maybe trying to explain it, but I actually want to go a little deeper than that. What do you see as the challenging issues between Canada and Japan in terms of some of those non-tariff barriers that are there, and what is your level of confidence in being able to negotiate and work through those to the confidence of not only the government but the businesses and the sectors that would be impacted?

• (1155)

**Mr. Ian Burney:** I'll start and Denis may wish to add some thoughts.

These are very sensitive areas in Japan, and there's no question that this is going to be a challenging area of the negotiation.

In each area there's a different mix of measures that are affecting the level of access. There's the tariff. There are sometimes safeguard measures that are triggered based on volume. There are sanitary and other measures that have become impediments in certain areas.

So each product would present a different mix of issues we would want to look at. But our aim, obviously, is to increase the level of access that Canadian suppliers can get in each of those subsectors. So in terms of level of confidence, I would simply say that this is a high priority for us but we also know that this is an area of great sensitivity for Japan.

**Mr. Bev Shipley:** I guess with your extensive—

**The Chair:** Your time has gone. We'll go to Mr. Shory, but you can get on the list again.

Mr. Shory, go ahead.

**Mr. Devinder Shory (Calgary Northeast, CPC):** Thank you, Chair.

Thank you, witnesses, for being here this morning.

I'll follow what he was going to say—delving into consultations, I believe.

But before that, Mr. Burney, in your presentation you laid out the facts and plans and expectations in a real manner to understand our course. The overall objective, you said, was to solidify and expand Canadian access to global markets, which of course gives opportunities to our businesses to create jobs back home here and make us all prosperous in this country. You talked about extensive consultations, about which I'm going to ask quick questions.

We have all seen that Canadian provinces and territories have played a wider role in the negotiations that we have either finalized or are currently on the way to doing. For example, on CETA all the provinces and territories were consulted, I would say, actively, and the parties participated in all of the negotiations in a very timely manner, I would say. They were basically part and parcel of the negotiations. Will the same kind of consultation process be adopted while we negotiate with Japan?

**Mr. Ian Burney:** We absolutely will be consulting very closely on an ongoing and sustained basis with provinces and territories as we negotiate with Japan. We expect that there will be a high level of interest from the provinces and territories in this negotiation. We have a variety of mechanisms within the department to consult with provinces and territories on trade initiatives. I expect that we will be using them all.

**Mr. Devinder Shory:** Another thing I noted when I was going through the slides is that over the period from 2006 to 2011, our exports have, I see, increased and imports have decreased. What that means, and I am not an economist, is that we have more opportunities created in Canada for all of our workers and our business community. This creates jobs and brings wealth back home as well.

Coming back to the point about sub-national governments, one of the attractions CETA had was sub-national procurement opportunities. In the initial negotiations or initial consultations, do you think sub-national procurement will be part of the negotiations with Japan as well?

**Mr. Ian Burney:** Thank you. It's a very good question.

In fact, what has happened is that in December of last year the parties to the plurilateral government procurement agreement under the auspices of the WTO reached a new agreement that substantially expands the coverage we enjoy with all GPA countries, including Japan. As a result of that agreement, Japan will have access to the sub-national procurement that currently exists in the Canada-U.S. procurement agreement, and we will benefit from the much expanded procurement that Japan has made available through that agreement, including at the sub-national level.

So by virtue of our participation in the WTO agreement on procurement, we have just obtained a substantial increase in procurement access to Japan. That said, one can always look for more, and so one of the areas that we would be seeking to negotiate in the context of a bilateral with Japan is in opportunities, where they may exist, to go beyond that. Whether it would be from a process standpoint or in terms of incremental access remains to be seen. But the bar has already been raised quite high as a result of our joint participation in the WTO GPA.

• (1200)

**Mr. Devinder Shory:** In your comments you mentioned as well that it would also contribute to Canada's growing trade policy engagement in Asia. I want you to elaborate on what that means and how we would benefit in that area.

**Mr. Ian Burney:** Well, one of the points I made in my presentation is that if you're able to land an agreement with a country like Japan, it adds quite a bit to your credibility as a negotiating partner in the eyes of others. Remember that Japan competes with other countries in Asia within the Canadian market, so to the extent that we're engaged in a deal that may give Japanese suppliers preferential access in our market, that may create an incentive on the part of our countries in Asia to want to negotiate with us.

The other thing I would say is that, beyond the specific benefits we would hope to obtain in the Japanese market, remember that Japanese companies are major leaders in a number of global supply chains. Something like 64 of the Fortune 500 companies are based in Japan. They are extremely connected throughout the Asia Pacific region and in global value chains. To the extent that we can help Canadian companies position themselves to participate in these value chains through an agreement with Japan, we open doors to opportunities throughout the Asia Pacific region and beyond.

**The Chair:** The time has gone. Thank you very much.

Mr. Sandhu.

[Translation]

**Ms. Lise St-Denis:** He spoke twice.

[English]

**The Chair:** Excuse me. Mr. Sandhu is first.

[Translation]

**Ms. Lise St-Denis:** I apologize.

[English]

**Mr. Jasbir Sandhu:** Thank you, Mr. Chair.

You talked about pursuing benefits in certain sectors for Canadian manufacturers or Canadian companies or Canadian sectors or Canadian trade overall. Could you tell us what sectors the Japanese would want to pursue in Canada, or in what areas they would like to see export of Japanese goods coming into Canada?

**Mr. Ian Burney:** It's a question that would be better put to the Japanese themselves. Through the negotiating process we'll develop a pretty clear idea of what their priorities are.

I think they would be looking at areas in Canada that are still subject to tariffs. The subject has come up a number of times already

this morning, but I think the tariff on automobiles would be a high priority for Japan.

That said, I would point out that the vast majority of Japanese-branded cars that are sold in Canada are actually made in North America; in fact, about half of them are made in Canada. So we're talking about a relatively small percentage that still actually comes from Japan, which is part of the reason that the trade numbers have been going the way they have. In fact, imports of Japanese vehicles have been declining. They've gone from something like \$5 billion five years ago to closer to \$3 billion now.

**Mr. Jasbir Sandhu:** Is that the only sector in which they'll benefit?

**Mr. Ian Burney:** I'd rather not be put in the position of identifying what their negotiating priorities would be. I'm worried about what our priorities are.

**Mr. Jasbir Sandhu:** What sectors or what kinds of goods would the Japanese want to export here?

**Mr. Ian Burney:** If you look at Japan's current exports, automotive and automotive parts products are a significant part of their exports. I talked about cars.

On the parts side, though, I should say that the vast majority are also coming in duty free, because we don't put duties on parts that come in as part of original manufacturing. Given that Toyota and Honda are such major investors in the Canadian economy, when they source parts from Japan they come in duty free now. A free trade agreement would not create any additional benefit in that particular area.

Japan is a major supplier of computers and electronics and machinery and equipment, so my guess is that they would be looking at Canada's tariff structure and looking for opportunities across the board. But Canadian tariffs are not very high, which is why we're not anticipating any significant dislocation in the Canadian economy as the result of a free trade agreement.

• (1205)

**Mr. Jasbir Sandhu:** Let me ask you the same question in a different way. How can Canadians benefit? Which goods would we want to import from Japan that would benefit Canadians?

**Mr. Ian Burney:** To the extent that through free trade we stimulate imports from Japan, they could benefit a wide variety of consumer and industrial interests across Canada.

We're talking about a very large, sophisticated trade relationship, which is why it's difficult for me to give specific examples here or there. We would expect benefits to be spread across virtually the entire economy, and not just in goods. There is a tendency to focus on tariffs, but through the more secure and stable regulatory regime created around services and investment, we would expect to see a lot of benefits in those areas in both directions.

It's not as though a benefit to one country is an expense to the other; it's not a zero-sum game. What we are anticipating is a more efficient trading arrangement that stimulates opportunities on both sides: Canadian consumers benefit from cheaper Japanese goods, and Canadian exporters benefit from better access in the Japanese market. The way we would look at these agreements, the benefits are on both sides.

**Mr. Jasbir Sandhu:** I would agree with the premise that there could be mutual benefits to both countries, but there must be some sectors that are going to be positively impacted and some that are going to be negatively impacted. I'm clearly not hearing from you that this is only going to have a slight negative impact upon the auto industry, but maybe not upon some of the other sectors in our economy.

**Mr. Ian Burney:** I am not able to identify other sectors of the economy in which we are seeing the risk of negative implications. Even in the automotive sector, as I've said a few times now, I'm not saying that the impact would be negative. I'm just saying that concerns have been expressed from some stakeholders in that industry.

At the end of the day, the trade agreement is creating the rules. It's up to companies to actually seize the opportunities that are provided by the rules. As a government official, I can't tell you which companies are or are not going to take advantage of the enhanced rules that are provided through the agreement.

**The Chair:** Thank you very much.

Mr. Holder.

**Mr. Ed Holder:** Thank you, Chair.

I hear my friend and colleague ask his questions, and I think sometimes we are allowed to accept the possibility of good news. I say that respectfully, because what I'm hearing here is potential.

I'm glad to hear you say, Mr. Burney in particular, that when we establish the rules-based arrangement with the intentionally lower tariffs, we can then let business and job creators get on with the job of doing what they do best.

I think the questions are fair all around in terms of what areas could potentially be impacted from Canada's perspective. I was in London this past Friday as part of an announcement when one of our ministers came to my city to talk about CETA and our negotiations there. Frankly, we were very clear that while the negotiations aren't done, the economic impact is some \$12 billion to Canada. I was interested to see in your formal presentation that close to \$4 billion of benefit will be attributed to Canada.

I think that is good news, and we need to celebrate the potential for good news more often than not. We as a committee are obligated to ensure that from our standpoint our negotiations are as focused as possible on Canada's interests.

I want to come back to what Mr. Davies said, but really I don't want to play musical chairs with Mr. Chen again unless he chooses to. When he made the assumption of zero unemployment, it wasn't because we realistically presume there's going to be zero unemployment as much as it was to have some parameter, some baseline, if you will, to be able to get on with establishing values.

Is that the premise of using zero unemployment on both sides, so that you have some baseline to work from, as opposed to presuming that it will be zero unemployment? Could you just clarify that?

**Mr. Ian Burney:** My understanding is that it's exactly that. The modellers have to make some assumptions in order to be able to manage a simulation. You could take it to almost infinite levels of complexity, but at a certain point your model has to have some constraints, otherwise you can't make it manageable.

Since this is beyond my technical area of expertise, it might be more helpful if we, in follow-up to this session, perhaps provided a document outlining the methodology used in this—

• (1210)

**Mr. Ed Holder:** The rationale would be quite useful.

**Mr. Ian Burney:** —and then the rationale for it, because it is a very technical field. So rather than claiming knowledge I don't have, I would prefer to commit to following up with something perhaps in writing.

**Mr. Ed Holder:** I appreciate we're in the early stages of this, but this is not our first attempt to establish a more formal trade arrangement with Japan, frankly. How could the wheels fall off in this deal, or do you anticipate that to be the case?

**Mr. Ian Burney:** Indeed it is not the first. In fact, I was directly involved in the earlier joint study process in 2006-07. Timing is everything and as a result of changes that are ongoing domestically within Japan now and of where we are with regard to our own trade policy orientation, the timing seems to be ideal to move forward with this initiative at this time.

How could the wheels fall off? We've also had experience with negotiations that run for many years and get stalled. That is inevitably a risk. Each side will have some sensitivities that they'll bring to the table here, and we'll have to seek a happy landing zone that allows each party to manage those.

**Mr. Ed Holder:** One of the things we've been given with CETA is some municipal backlash where municipalities, some across the country, have said they don't want to play. That is not their call insofar as it's really the negotiation that we have with the provinces and so on, and they, being creatures of the province, can't run afoul of our agreement.

Would it help to have the provinces so closely connected in CETA to be able to do this and to have their buy-in? I would think that any deal going forward has to have that same sense of buy-in.

I'd like to ask you this. You've touched on it. How close will that relationship with our provinces have to be not just in terms of informing but in terms of tabling, if that's the right expression? What do you see as the provinces' role, so we can offset that potential for criticism? You know, quite frankly, that it will be there going forward, because there are those individuals and certain groups that will ensure that municipalities are twisted to a different perspective and they will come out and vote against it.

Have you any response to that, please?

**Mr. Ian Burney:** I'm not sure that the initiative with Japan will generate exactly the same response the CETA negotiation has generated. That would be my first point.

The main point is that we will be in lockstep with the provinces and territories as this moves forward. I think there is a broad-based understanding of the importance not only of the Japanese market but also of the Asia Pacific region as a whole. I think there is a strong degree of support among our provincial and territorial colleagues for Canada being as ambitious as possible in pursuing opportunities in the Asia Pacific region at this time, particularly given the risk that our major competitors are all going to be doing the same thing and we do not want to find ourselves facing a non-level playing field in some of the most important markets in the world, markets that will only get to be more important going forward.

**Mr. Ed Holder:** Mr. Chair, I'm done, so I might ask you at some point if the negotiators have any thoughts about Japan's position on the seal hunt, but I'll leave that to you.

**The Chair:** Okay. All things are on the table when it comes to negotiations, but we'll pursue that a little bit later.

Right now, Mr. Davies, the floor is yours. Five minutes.

**Mr. Don Davies:** Thank you, Mr. Chair.

I just want to follow up on your answer that including an investor-state dispute settlement mechanism is a standard part of every agreement. You also testified, quite rightly, I think, that Canada and Japan have mature, established judicial systems and court systems, which protect investors regardless of nationality, I would presume. In light of that, what's the justification for including the investor-state dispute settlement mechanism?

**Mr. Ian Burney:** It would be an enhanced degree of stability and security that we could afford to investors on both sides. Through the investment agreement, we would be taking obligations in relation to national treatment and most favoured nation, basically non-discrimination provisions, with the ability, then, to have recourse to international arbitration. So it's an added advantage.

**Mr. Don Davies:** Now to follow up on Mr. Holder's comments about a number of cities that have expressed concerns about CETA, I think one of their concerns is that they're worried that these international agreements may somehow impact on their ability to have local procurement initiatives.

Is there anything that you see in the investor-state dispute settlement process or in the Canada-Japan negotiations that you think would impact in any way or impede in any way cities' ability to have local procurement policies?

**Mr. Ian Burney:** Certainly not from the standpoint of the investor-state mechanism. In terms of what obligations may end up

in an eventual government procurement chapter, we haven't even started to negotiate, so I'm not able to speculate on what the outcome there might be.

• (1215)

**Mr. Don Davies:** So it's possible that there may be some elements in this agreement that may impact on cities' ability to have local procurement policies?

**Mr. Ian Burney:** As I said in response to an earlier question about government procurement, we have just obtained a substantial increase in government procurement opportunities bilaterally through the multilateral process under the WTO auspices. This is literally just happening now, and the approach that we take on government procurement with Japan, in a bilateral context, would have to be informed by that. The first discussion we would have is whether, in light of that, there's a need to try to negotiate something further to that. We're not even at that stage.

**Mr. Don Davies:** Right.

Do you anticipate any consultations with the major municipalities in this country over this agreement? Toronto? Vancouver? Montreal?

**Mr. Ian Burney:** To the extent that there are going to be disciplines that might have an impact on them, that's possible. But at the moment I'm not seeing that the kind of negotiation we will have would have direct impacts on municipalities.

**Mr. Don Davies:** In terms of the Trans-Pacific Partnership that I asked you about, and Canada-Japan, if we're pursuing simultaneous tracks of TPP and Canada-Japan, if that happens, can you expand a bit, Mr. Burney, on how that would work? Could you see us signing two agreements, a Canada-Japan agreement and a TPP? And if so, which would supersede the other? How would that work?

**Mr. Ian Burney:** It's a bit difficult to speculate, since we're not in the TPP, so we don't have all that much clarity in terms of how the architecture would work there. From what we understand, the current members are wrestling with exactly that question, because a lot of them already have separate arrangements among some of the members. In fact, we already have free trade agreements with a number of the existing TPP members. So those kinds of architectural questions would have to be addressed.

But the fact that current members of the TPP already have bilateral FTAs among themselves is not deterring their pursuit of a broader TPP process. They portray the TPP as being the vehicle that will expand and become the vehicle for integration across the entire Asia Pacific region, so it's entirely possible that you would have a network of bilateral agreements co-existing within a broader framework, in the same way that bilateral FTAs co-exist with our obligation to the WTO.

**Mr. Don Davies:** I understand that if countries that are currently members of TPP or who are seeking admission to TPP already have free trade agreements, those exist, so the TPP is something different. But the different situation here is that we have neither an agreement with Japan, nor are we a member of TPP. It just seems—not impossible—but a little bit unique to be pursuing both of those at the same time. Do you see any difficulties with that?

**Mr. Ian Burney:** What I would say is that the last broad regional negotiation that we were a part of was the free trade area of the Americas, and that ultimately did not succeed. Given that there could be no guarantee that it would succeed—and I'm not suggesting the TPP is going to go that way—then I think it would be in Canada's interest—

**Mr. Don Davies:** It would be prudent to pursue both.

**Mr. Ian Burney:** —and Japan's interest, for that matter, to pursue both.

**The Chair:** We're very tight for time.

**Mr. Don Davies:** In terms of consultations, have you consulted any environmental groups in the country about any potential impacts that an agreement with Japan may have in the environmental sector?

**Mr. Ian Burney:** We put a solicitation out to everybody to send us any comments. I don't know off the top of my head whether any environmental groups provided submissions. I don't think so. To my knowledge, we have not proactively consulted with environmental groups. If there's going to be a negotiation of an environmental side agreement, that's something that our colleagues at Environment Canada probably would do.

**Mr. Don Davies:** Thank you.

**The Chair:** Thank you.

[*Translation*]

Ms. St-Denis.

**Ms. Lise St-Denis:** Within the process of negotiations, you twice mentioned sanitary provisions. You said that they were very important.

Can you tell us whether these provisions or requirements come from Canada, from Japan, or from both countries, and can you give us some examples?

**Mr. Ian Burney:** I will ask my colleague Denis Landreville to answer your question.

**Mr. Denis Landreville:** In the agricultural sector, I would say that in the framework of our bilateral relationship, most phytosanitary provisions are, for now, on the Japanese side. There is nothing on the phytosanitary side in agriculture on the Japanese side. The current sanitary and phytosanitary issues in agriculture are mainly on the Canadian side.

• (1220)

**Ms. Lise St-Denis:** So we are the ones who have requirements of Japan. Is that what you are saying?

**Mr. Denis Landreville:** I am saying that, for now, issues under discussion are mainly on the Canadian side as far as Japan is concerned with regard to access. However, I believe that both Japan and Canada would like to see general principles and provisions

included in an agreement to implement a process to address these types of issues. This would mean including a chapter on these issues.

**Ms. Lise St-Denis:** In your presentation, you said that Canada and Japan would like to sign an agreement which would include the rigorous environmental and labour standards that already exist in both countries.

When you refer to rigorous environmental standards, what exactly do you mean as far as Canada is concerned? Canada does not want to be part of the Kyoto Protocol anymore, and in its budget it has reduced to one the number of environmental assessments. In fact, it used to be that there was both a provincial environmental assessment and a federal one. So when you talk about Canada's environmental requirements, are you referring to the standards which currently exist, which will exist in the future, or which were in effect previously?

**Mr. Ian Burney:** It is not quite clear yet what we will be able to negotiate with Japan under a free trade agreement. Canada and Japan both have very high environmental standards, but it is not clear yet whether we will have the same approach in the context of a free trade agreement. That is one of the things we will have to clarify with the Japanese, and that will probably happen at the beginning of the process.

**Ms. Lise St-Denis:** This will happen before discussions.

**Mr. Ian Burney:** Discussions have already begun under the framework of the joint study, but now they must continue, because we have to decide whether there will be a parallel agreement on the environment. This is what we have done in the past, but not the Japanese. They usually do not have parallel agreements on the environment in their free trade agreements.

**Ms. Lise St-Denis:** Regarding labour practices, perhaps it was different in the past, but today the Japanese work and operate in a very efficient manner. Just think of their subway system. What they have achieved is truly impressive. What aspects, such as issues affecting unions, could be included in a parallel accord to a free trade agreement?

**Mr. Ian Burney:** The answer is similar to the one I gave you regarding the environment. Our approach in free trade agreements is a little bit different, but we will work with Japan, from an international point of view, on matters concerning the protection of workers. In that regard, we do not have any concerns regarding working conditions in Japan. We will have to determine which approach will work best in the context of a free trade agreement. That's not clear yet. Canada usually signs parallel accords, but this has not been Japan's approach in its own free trade agreements.

Denis, did you want to add anything?

[*English*]

**The Chair:** Thank you very much.

Mr. Keddy will finish off the questioning, and then we will go into an in camera session.

**Mr. Gerald Keddy:** Thank you, Mr. Chairman.

Unfortunately, I missed part of your discussion. I hope I don't repeat anything my colleagues have already said.

I do have a couple of issues I think we need to take a little closer look at here. This is an ambitious agreement, with a fairly high level of ambition from us and—for the first time, it looks like—from the Japanese.

There a couple of issues where we have a good relationship with Japan, and I'm wondering if we can't use those to our advantage. I want to go back to the fishery for a bit. Japan has been a very useful ally at the international commission on Atlantic tuna, at the ICCAT meetings. If it weren't for Japan agreeing to take Canadian tuna—we export the majority of our tuna to Japan—the Americans, the Spaniards, and the Portuguese, who constantly snooker us on tuna, in my opinion, would have all the quota. They wanted to pass a law at the last ICCAT meeting that 90% of the tuna caught had to be consumed domestically in the country that catches it. That's great for those nations that consume more tuna than we do, but we probably have a more efficient fleet and a more conservation-minded fleet.

So I think those things shouldn't be forgotten when we're talking to the Japanese, because we do supply the majority of their tuna and we have an ally there.

The bilateral access on sub-national procurement—I'd like you to go back over that for a moment. The new agreement at the WTO and the maximum and minimum levels—I'd like for you to reaffirm those. Is it still, on infrastructure, \$8.5 million, and \$370,000 on the smaller level for services? What's the number?

• (1225)

**Mr. Ian Burney:** In a previous incarnation, Dany was our procurement lead. She's saying that sounds right, but that's from memory; she wouldn't want to swear to it.

**Mr. Gerald Keddy:** Okay. I don't want to say mine's right either, but it's close.

**Mr. Ian Burney:** Yes, it's ballpark.

**The Chair:** If those numbers are not accurate, perhaps you could let the committee know.

**Mr. Gerald Keddy:** Yes.

But I think the importance of mentioning that...and it still leaves a lot of leeway for self-direction on behalf of smaller municipalities. I think there's some concern, when you start talking about procurement, but when people realize that those rules exist already, that concern goes away. When you hear some of the opposition to this agreement, it's as if we don't have procurement rules already.

I think we need to do a better job, and probably the department as well, of putting that information out there for the general public, because they're not aware of it. I've talked to a number of councillors across the country on the CETA with the EU, and they have no idea of the parameters that are already in existence. I think for our own benefit, that's important.

The access for beef; when we look at beef in Japan, do we know within some degree of accuracy how much beef the Japanese already produce on their own? I know they're pretty protective of it.

You know, quite frankly, I wouldn't understand why we would try to go in there and simply.... We're not going to get the entire market. What we want is our market share. I think we can accommodate beef production within Japan, because they just simply don't have the tonnage.

Do we know what they produce?

**Mr. Ian Burney:** While Denis looks for that number, I'll just say that I've taken note of all three of your points.

I know that tuna is already a big business for us in Japan. I believe we exported \$37 million in tuna last year. It certainly will be an area of priority.

On the procurement point—

**Mr. Gerald Keddy:** Most of that is coming from the south shore of Nova Scotia, by the way.

**Mr. Ian Burney:** I'll make a special note of that.

Just so there's no misunderstanding, the current coverage of the procurement agreement does not include municipalities. There is no municipal coverage in the current agreement.

On beef, I know that our exports have recovered significantly since the BSE ban was lifted. We're up at around \$80 million in terms of exports of beef last year.

Denis, do you have any further information?

**Mr. Denis Landreville:** I don't have exact figures in front of me in terms of what the Japanese beef production is, but it does fall into different categories. They have their dairy sector, which provides some dairy cows for slaughter. They have steer and heifer, as well, and they have the wagyu beef, which is their high-end, expensive beef. Within that, yes, I think we would enter a certain segment of their market. Some of those sectors may be in more of a position to compete with Canadian imports. But from the work we've done looking at this, I think our access into their market will more likely lead to increased consumption. That's where we will see our imports of beef into the Japanese marketplace increase in terms of generating more consumption of beef in Japan.

• (1230)

**The Chair:** I want to thank you very much for coming and launching us into this very exciting opportunity for a partnership agreement between Canada and Japan.

Thank you, Mr. Burney, and your very capable team, for answering our questions so clearly and capably.

With that, we want to adjourn this part of the meeting as we go in camera, so thank you very much again.

*[Proceedings continue in camera]*





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