House of Commons
Chambre des communes
CANADA

Standing Committee on International Trade

CIIT • NUMBER 035 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Tuesday, May 8, 2012

Chair

The Honourable Rob Merrifield

Standing Committee on International Trade

Tuesday, May 8, 2012

● (1105)

[*English*]

The Vice-Chair (Mr. Don Davies (Vancouver Kingsway, NDP)): Ladies and gentlemen, welcome to the Standing Committee on International Trade. We're embarking on a study of a comprehensive and high-level economic partnership agreement with Japan.

I want to start off by welcoming all of our witnesses today. I also bring you best regards from the Honourable Rob Merrifield, the chair of this committee. Unfortunately he's travelling today, so I'll be chairing the meeting in his stead.

We have witnesses today from three organizations: the Canadian Manufacturers and Exporters, the Grain Growers of Canada, and Canadian Life and Health Insurance Association Inc.

We'll start off by hearing from the Canadian Manufacturers and Exporters.

Monsieur Laurin, I understand you're an expert at this, so we look forward to hearing your testimony.

Mr. Jean-Michel Laurin (Vice-President, Global Business Policy, Canadian Manufacturers and Exporters): I don't know if I'm an expert, but I've had the pleasure of coming here a few times.

Thank you, Mr. Chair, for inviting me to appear before the committee again on behalf of the Canadian Manufacturers and Exporters. We are happy to take part in these important consultations on an economic partnership agreement with Japan.

I see some new faces around the table, so before I begin, I'll say a few words about our association. CME is Canada's leading trade and industry association and the voice of manufacturing and global business in Canada. Our association, through various initiatives such as the establishment of our Canadian manufacturing coalition, represents more than 10,000 leading companies engaged in manufacturing, global business, and service-related industries. More than 95% of our members are small and medium-sized companies representing every industrial sector and every export sector of the Canadian economy.

I always like to remind people that manufacturing is the single largest business sector in this country. Our members' sales totaled $571 billion last year. Companies that make things in Canada account for approximately 13% of our GDP and employ 1.7 million Canadians in highly productive jobs that pay better than the average. Our members' contributions are critical to the wealth generation that sustains our standard of living. Also, the business of manufacturing includes much more than the companies that make things. In fact, manufacturers consume close to half of the resources grown and extracted by Canada's farming, fishing, forestry, mining, oil and gas industries. Manufacturers account for one-third of the output of our utilities sector. We consume 30% of the value delivered by business management, engineering, technical, and software services; and we estimate every dollar of value created by Canadian manufacturers generates more than $3 in total economic activity.

Manufacturing is an export-intensive business—more than half of our industrial production in Canada is exported directly to other markets, mainly the U.S. Taken together, manufacturers are responsible for 63% of Canada's merchandise exports. It's increasingly critical for our members to succeed in global markets. The more manufacturers invest in innovation, become more agile, and specialize to serve niche markets around the world, the more they need to find customers, suppliers, and business partners outside North America.

A growing share of our members are looking to take advantage of new and emerging opportunities beyond North America. By opportunities, we mean finding customers and new markets, looking for potential investors in Canada, seeking investment opportunities in other markets, and sourcing services from around the world. We are also looking for qualified personnel to address some of our skill shortages. When it comes to the government's trade policy agenda, as well as specific trade negotiations such as those with Japan, our priority is to ensure that we enhance manufacturers' and exporters' abilities to compete and win in both domestic and global markets. In other words, our priority is to ensure that trade agreements put us in a position to grow and strengthen Canada's manufacturing base and increase Canada's exports of goods and services.

In the case of Japan, here are some of the key facts about these trade negotiations. For starters, Japan is the world's third-largest economy after the U.S. and China, according to the World Bank. It's our fourth-largest export market after the U.S., Europe, and China. It's also our fifth-largest import supplier after the U.S., China, the EU, and Mexico. Coal, canola, copper, lumber, and pork are our top five exports to Japan, and they account for 58% of our exports to that country. Autos, auto parts, heavy equipment, printing equipment, tires, aerospace parts, and telecommunications equipment—these seven products taken together account for 52% of Japan's exports to Canada.

● (1110)

As you can see, the majority of our exports to Japan are natural resources. They are natural resources that Japan needs to procure outside of their own borders, while the majority of our imports that Japan sells to Canada are manufactured goods that we in large part also happen to make in this country.

In total we have about an $8.2-billion trade deficit with Japan on manufacturing goods, and a $5.9-billion surplus in natural resources and goods, such as agrifood products—Richard can talk about that—forestry and energy products. Overall it makes for a negative trade balance of $2.3 billion.

Taking all of these facts into account, we believe we should conclude a trade agreement with Japan to the extent that it provides a net benefit to the Canadian manufacturing and exporting sectors.

I'll let Richard and my colleagues talk about it from a resource and services perspective. But from a manufacturing perspective, while we definitely see potential in the Japanese market—it's after all one of the largest markets in the world—at the same time we're also concerned that an agreement could exacerbate our trade deficits on manufactured goods.

In our opinion it's critical that a trade agreement with Japan provides a net benefit to our members by providing open and reciprocal market access. I mean, some of those barriers to trade and investment between Canada and Japan are structural in nature. We have some questions as to whether we can deal with them through a bilateral trade agreement.

Given that both Canada and Japan are interested in joining the trans-Pacific partnership negotiations, we believe we're more likely to be able to address these market access issues on a regional basis through TPP, if only because Japan will secure access to a much greater market as a result and might be willing to provide more in return for an accession to TPP. In fact, Canada would not be alone in raising these issues with Japan in the context of TPP. I know that the U.S., Vietnam, and Malaysia have also voiced concerns with respect to market access into Japan.

That being said, we'd rather negotiate with Japan on a regional basis through TPP, for three reasons. One is that we have a strong level of manufacturing supply chain integration in North America. Negotiating an agreement alongside the United States and Mexico—our two NAFTA partners—would ensure we could open markets throughout the Asia-Pacific region, including Japan, in a way that allows our manufacturing base to meet rules of origin requirements and doesn't hinder North American manufacturing competitiveness.

Also, as I outlined earlier, we have a strong convergence of interest with the U.S., and to a lesser extent with other TPP countries, with respect to Japan.

Thirdly, and finally, I think we would have more negotiating leverage with Japan by standing alongside our NAFTA partners in a regional context.

The decision on whether Canada will be allowed to join TPP rests with the U.S. and the other countries negotiating the agreement. I think our trading partners have gone on record, saying they'll be allowing new entrants on the basis of whether we'll be able to hit the ground running and join the negotiations in progress and meet the level of ambition that other parties are pursuing. They will invite new partners that have a good track record of addressing bilateral trade issues.

I think in that context it's important that we pursue negotiations and discussions with the U.S. and other countries, and that we do what's needed in the context of TPP, but we also understand that the government is simultaneously pursing bilateral negotiations with Japan. I think we can't put all of our eggs in the same basket.

I think the way we see these trade negotiations is that they provide us with an opportunity to address our persistent trade deficit, especially as it relates to manufactured goods. I want to put it on the record that our members have as much at stake in these negotiations as probably anyone else in Canada, so for that reason alone we will be following these negotiations with a very high level of interest.

I'll stop here. We'll be pleased to answer any of your questions and maybe expand on some of the points I touched on in my comments.

Thank you.

● (1115)

The Vice-Chair (Mr. Don Davies): Merci, Monsieur Laurin.

Mr. Phillips, you have 10 minutes.

Mr. Richard Phillips (Executive Director, Grain Growers of Canada): Thank you.

My comments will be much shorter than 10 minutes.

We are excited about the new prospects and opportunities that a Canada-Japan partnership represents for Canadian farmers. A new trade deal that decreases current Japanese tariffs will unlock new markets for Canadian farmers and give us a lot of room for new growth. A recent government report, sanctioned by both Canada and Japan, shows there is potential for Canada to increase its GDP from between $3.8 billion to $9 billion.

In 2010 Canada exported $3.3 billion in agrifood products to Japan. That equates to 10% of Canada's total agrifood exports, making Japan a high-priority market for Canada's agriculture sectors. Within the grain sector more specifically—we are the Grain Growers of Canada—Japan is Canada's second-largest export market and a major customer for the crops we grow, like canola, wheat, durum, and malt barley.

Japan is Canada's third-largest market for wheat, with exports in 2011 totalling $471 million. It's our sixth-largest market for durum. Durum is also a wheat, but it's used for pasta, noodles, and couscous.

Canola has more than a 40% market share of Japan's total edible oil consumption, and Japan imports over two million tonnes of seed worth over $1.4 billion, consistently one of our best markets.

Canada is Japan's largest malt supplier, with a 28% share of malt imports. When I say “malt”, that's malting barley, which is used to make beer.

Beyond just these numbers, even more importantly the Japanese market is what we call a premium market. Japan pays premium prices for premium quality, and this means more dollars in farmers' pockets.

An economic partnership agreement will open the doors to discuss issues like tariff escalation, where our value-added exports are often facing higher tariffs than the raw products. Whether it is pulse flour or canola oil, for example, we are looking for the opportunities that a level playing field can provide.

Canadian companies will also be able to use a trade deal with Japan as a foothold to the larger Asia-Pacific region. We also took the opportunity recently to go to Japan with the agriculture minister, the Canadian Wheat Board, and the Canadian Grain Commission to meet with the Japanese flour millers association and assure them that quality Canadian wheat will continue to be produced and marketed.

I would be happy to discuss that trip more in the open forum.

Thank you for the opportunity to be here today. I look forward to the questions.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Phillips.

Mr. Wilkinson, Ms. Hilchie, you have 10 minutes.

Ms. Janice Hilchie (Vice-President, Government and International Relations, Canadian Life and Health Insurance Association Inc.): Thank you, Mr. Chair.

I'll begin this statement then turn to my colleague to say a few words about his company's operations in Japan. Then I'll conclude the remarks, all in 10 minutes.

[*Translation*]

Mr. Chair, ladies and gentlemen members of the committee, I am very pleased to have the opportunity to be here today with Peter Wilkinson, from Manulife Financial, on behalf of the Canadian Life and Health Insurance Association, or the CLHIA. We appreciate the opportunity to share our support for the comprehensive and high-level economic partnership agreement with Japan.

The CLHIA is a voluntary trade association whose member companies account for 99% of Canada's life and health insurance business. Our industry provides a wide range of financial security products such as life insurance, annuities and supplementary health insurance to about 26 million Canadians.

Canadian life and health insurers are also an international success story. Almost half of the industry's premium income is generated from outside Canada, while a majority of its employees reside in Canada. Our industry has operations in 20 foreign markets and is keen on expanding its horizons.

The most active Canadian insurer in Japan is Manulife Financial, and I will let Peter say a few words about their operations in the country.

● (1120)

[*English*]

Mr. Peter Wilkinson (Senior Vice-President, Government Relations, Manulife Financial, Canadian Life and Health Insurance Association Inc.): Thank you, Janice.

Thank you, members of the committee, for giving us the opportunity to share our views today on the economic partnership agreement with Japan.

Just as Japan is an important market for Canada, it is also an important market for Manulife. Japan is the second-largest insurance market in the world. Japan is one of Manulife's oldest success stories; in fact, our story dates back to 1901. Today Manulife Japan has its own sales force of more than 3,000 advisers, with an extensive network of eight regional offices and approximately 120 local sales offices across the country. Manulife conducts roughly $4-billion worth of business in Japan per year.

Manulife Japan provides a range of financial protection and wealth management products designed to meet the changing needs of consumers, with two main business lines—an individual insurance business that provides more traditional life and health insurance products to consumers, as well as an annuities business. Manulife was among the first companies to introduce universal life products to Japan.

Last September I accompanied our CEO, Donald Guloien, to Japan to meet with a diverse group of Japanese CEOs who represented a range of sectors to discuss how we could reaffirm our commitment to an EPA between our two countries.

Mr. Guloien led a team of Canadian CEOs that included Duncan Hawthorne of Bruce Power; Ian Smith of Clearwater; Robin Sylvester of the Vancouver Fraser Port Authority; John Manley from the Canadian Council of Chief Executives; and David Culver, the former chairman and CEO of Alcan Aluminum.

Our experience was extremely positive, and we quickly realized that we were pushing on an open door. We were well received by all private and public sector representatives with whom we met, and there was a lot of goodwill towards Canada, especially given the immediate assistance provided by both Canadian companies and by our government in the aftermath of the tsunami and earthquake.

Also, the majority of the Japanese CEOs whom we met with had experience doing business with Canada. In that sense they were our natural allies and valuable contacts for all of our companies.

We discussed how to make the most of and enhance our existing relationships, and we came away with the following conclusions. First, Canada and Japan need to pursue a free trade agreement. Second, the agreement should be as ambitious and comprehensive as possible in order to fully leverage our current position in Japan. The agreement needs to cover more than just tariff negotiations. Third, the agreement needs to address other aspects of doing business in Japan. Regulations that govern the insurance and other financial industries need to be internationally benchmarked to ensure compatibility. Also, issues like double taxation and social security should be addressed in order to remove the barriers that dissuade the movement of senior executives. Fourth, there should also be a focus on the elimination of non-tariff barriers, which, according to the European Business Council in Japan, are problematic for foreign businesses to operate on a level playing field in Japan, compared to Japanese companies. Janice will discuss in more detail one particular issue that affects our industry. Finally, dispute resolution mechanisms should be timely and effective. Both of our countries have sophisticated judicial systems that can form the basis of this without creating new and onerous regulations for an already regulated industry.

I thank you for your attention.

Now I hand it back to Janice for the rest of our presentation.

Ms. Janice Hilchie: Thank you, Mr. Chair.

As you can see, the Canadian life and health insurers welcome the Canadian government's decision to pursue a comprehensive and high-level economic partnership agreement with Japan.

We believe an EPA will help to eliminate impediments to Canadian businesses operating in Japan and to ensure a level playing field between Canadian companies and other competitors. In support of any engagement strategy, the industry believes there must be an open dialogue and good coordination between government and Canadian life insurers with operations and interests in the Japanese market.

However, there is one issue we'd like to bring to the attention of the committee respecting Japan Post Insurance. The issue is that Japan Post Insurance is a state-owned enterprise with 30% owned by the Government of Japan, and our industry has concerns that they might receive advantages in the marketplace because of this. Most recently, new legislation to reform Japan Post Insurance was passed on April 27, which, if acted upon, we believe runs contrary to Japan's international trade obligations.

Over and above the issue of not ensuring a level playing field, the legislation will provide Japan Post Insurance with special legal and regulatory exemptions; allow Japan Post Insurance to enter into new business under a notification system whereas private insurers must operate under a pre-approval system; and require Japan Post Insurance to offer insurance products as a universal public service in perpetuity while having virtually exclusive access to Japan's post office distribution network before a level playing field is established with private companies.

The position of the CLHIA, which is shared by other insurance associations around the world, has been that no new or modified products or services should be introduced by Japan Post Insurance until a level playing field is assured between Japan Post and other private sector insurers operating in Japan, including their domestic insurers.

The Canadian and global insurance industries have expressed serious reservations about Japan Post Insurance reform in the past. We're grateful to our Canadian embassy staff in Japan who have approached their Japanese counterparts in order to relay their and our concerns about proposed reforms to Japan Post Insurance and the implications it has on ensuring fair and equal competition in Japan's domestic insurance market. We urge them to continue to advocate on behalf on Canadian life and health insurers operating in Japan.

In conclusion, Mr. Chair, the industry is committed to supporting the Canadian government in its efforts to secure a fair and equitable EPA with Japan. We note that the existence of an EPA will help to better protect market access and reinforce a level playing field through safeguards built into the Canadian bilateral free trade agreement, safeguards that are not as rigorous as those available through the WTO's dispute resolution mechanism. The recent Japan Post Insurance legislative developments, outlined earlier, point to the benefits of the additional level of protection offered by an EPA.

Japan can and should be seen as an effective beachhead for Canadian companies who operate in Asia. Given its democratic values, stable government, strong legal system, protection of intellectual property, world-class infrastructure, and Japan's own FTAs in Asia, it's an ideal starting point for Canadian companies looking to ease into the region. Similarly, Canada can provide entry for Japanese firms into the U.S. and the Americas. In order to fully leverage this potential, we need this economic partnership agreement.

Thank you again, Mr. Chair, for the opportunity to appear before the committee today. We'd be pleased to provide any further input that the committee would find useful.

● (1125)

The Vice-Chair (Mr. Don Davies): Thank you to all the witnesses.

We'll now proceed to the questioning.

We'll be led off by the official opposition New Democratic Party.

Mr. Sandhu, you have seven minutes.

Mr. Jasbir Sandhu (Surrey North, NDP): Thank you, Chair.

Welcome, and thank you for being here.

First, to Mr. Laurin, what are the major trade barriers in the manufacturing sector?

Mr. Jean-Michel Laurin: Thank you. That's a very good question. I was hoping you would ask it, because I kind of excluded that from my opening remarks.

As for the barriers to trade, I think Richard, Peter, and Janice alluded to some of them in their own sectors.

For manufactured goods, I think what we often hear from our members is that the barriers are related to standards and certification, both in their complexity and in the lack of transparency in terms of changing regulations and changing standards, and also in regard to the costs and the delays associated with getting products certified for sale into the Japanese market.

We often hear about the industrial structure in Japan. You tend to find, especially in certain key markets, that Japanese companies are vertically integrated, so they have a very close relation with their suppliers. In fact, they tend to be related parties owned by a common shareholder. They tend to have very strong control over the distribution networks. So for companies that are looking to establish a presence in that market, if there is an existing Japanese company that has a strong presence, the barriers to entry make it sometimes prohibitive for companies to really be able to grow market share and establish a presence in that market.

We also hear about issues around certification of products, as I mentioned earlier, and issues around access to the distribution network. Some of those issues can probably be dealt with through an FTA, while some of them are a little more structural in nature. That's why we think that maybe negotiating these things alongside the U.S., and with other trading partners that have raised similar issues with Japan, might hold more promise.

But these are, in a nutshell, the large overarching issues and market access issues that our members experience.

● (1130)

Mr. Jasbir Sandhu: If I hear you correctly, you're talking about non-tariff barriers that are in place.

Mr. Jean-Michel Laurin: Exactly, yes.

Mr. Jasbir Sandhu: What about the tariff barriers? You certainly would like to see some progress on the non-tariff barriers.

Mr. Jean-Michel Laurin: Yes. We cannot take those for granted. In the context of an FTA negotiation, the traditional FTA model is that you start by at least getting rid of most tariffs and having as few exclusions as possible. We kind of take that for granted. In the new generation or the next generation of trade agreements, certainly what we're trying to do with Europe, for example, is that we're looking to move beyond just tariff elimination.

Especially in the case of Japan, the tariff barriers are sometimes a problem. But even if you get beyond them, I think what our members are telling us is that you can deal with the tariff barriers, but the non-tariff barriers are much harder to deal with.

So yes, the tariffs remain an issue, but I think if we are serious about getting Canadian companies to do more business in Japan, we have to look at the non-tariff barriers especially. That's the number one issue on our list, as far as I'm concerned.

The escalating tariff issue that Richard mentioned earlier is also an issue, because it actually discourages value-added manufacturing activity in Canada. It says that if you export raw materials, you pay a lesser tariff than if you actually transform the goods in Canada to export them to Japan. So that's another issue related to tariffs.

Our expectation.... In the context of a negotiation and these issues, having a broad chapter on tariffs is certainly something that we kind of take for granted, but the issue for us is that I think Japan would get much better access into Canada if we just got rid of the tariffs. If we just get rid of the tariffs, it won't make that huge a difference in terms of our market access into Japan.

Mr. Jasbir Sandhu: We've heard in this study, and also from you, that when you look at the trade coming our way, you see that it's mostly manufactured goods that come to Canada. Yet most of our trade that goes the other way is not manufactured goods. It's raw materials or farm goods. Do you see that balance shifting or would you say that it's going to further widen the gap?

Mr. Jean-Michel Laurin: Well, you want to do an FTA with a country where there are trade barriers, right? I mean, the whole idea of negotiating a free trade agreement is to reduce trade barriers and allow companies to do business more easily. If we try to do FTAs with countries where there are no barriers, it would make a good announcement, but it doesn't necessarily do much for business.

I think there's potential with Japan in the context of how this is a country where we've had persistent problems getting access to that market. So to the extent that we can resolve those issues through bilateral negotiation, we're certainly seeing that in a way that's very positive. But the goal here shouldn't be to negotiate an FTA at all costs. I think it should be to negotiate an agreement that is of benefit to the Canadian manufacturing sector. Also, I would assume that Japan wants to get a similar outcome for their own sectors.

I don't think the fact that we export mostly raw materials and processed raw materials and they export to us manufactured goods.... I mean, I would like an FTA to help us achieve more of a balance. I think there's potential. Canadian manufacturers are used to competing globally. I think I made that pretty explicit in my comments. Our members feel they can compete against anybody around the world, as long as they have a fair chance to compete on a level playing field.

So I think that when it comes to Japan, that's the issue our members keep raising: we want reciprocity. It's okay for Japanese companies to come here and compete with us, but only to the extent that we can actually go to their market and compete on the same basis. To the extent that we can accomplish that through these trade negotiations, we'd certainly be in support.

Mr. Jasbir Sandhu: You represent manufacturing sectors across this country. What areas would benefit the most? What sectors would benefit the most?

Mr. Jean-Michel Laurin: That's a good question.

I mean, it depends on what the outcome of the agreement is. I'm sure you'll hear from sectors such as the auto sector. Both the Canadian and U.S. auto sectors have been raising market access issues with Japan for a very long time.

So would this be a sector that...? It's a hypothetical question. It depends on what the actual outcome of the trade agreement is. But I think for manufacturers in pretty much all industrial sectors, Japan is a very large, very mature industrial market. We have solutions in every sector, from textiles to forestry, to aerospace to defence, to automotive. Pretty much all sectors in manufacturing would stand to gain from an FTA with Japan to the extent that it provides that level playing field and that reciprocal market access.

It's easier said than done, but we're looking at these negotiations in good faith, and we're hopeful that we should put our name down on the agreement. Canada should sign this agreement to the extent that it really does address those issues.

● (1135)

The Vice-Chair (Mr. Don Davies): Thank you.

Now we'll turn to Mr. Keddy from the governing Conservative Party, for seven minutes.

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

Welcome to our witnesses. Most of you have been to the committee before, so welcome back.

To Monsieur Laurin, just listening to your testimony, I have one slight difficulty with it. I agree with what you're saying, so don't misunderstand me. The challenge here on negotiating this economic partnership agreement with Japan is probably that we have to do it in parallel, and not necessarily with the Americans.

The Americans already have an agreement, number one. Number two, they are in an election cycle, and it's very, very doubtful.... I mean, we certainly are ambitious in our trans-Pacific partnership, but in an election cycle, it makes it even more difficult. Therefore, we have an I think even greater urgency to negotiate a bilateral. And the opportunity.... The doors are open.

I go to Mr. Wilkinson's statement of his high-level delegation to Japan. We've seen a willingness that has never been there in the past to negotiate and discuss difficult issues.

I understand what you're saying about our rules of origin. That's a great obstacle for Canada, without question, with an integrated marketplace with Mexico and United States. But whether or not the trans-Pacific partnership gets off the ground, this is the third-largest economy in the world, our fourth-largest trading partner. We need to do this without attaching any strings to it, and I just want to be clear on that. An agreement with Japan, even if the TPP doesn't work, is still important.

Mr. Jean-Michel Laurin: Just quickly, I agree with you; I think we need to keep all of our options open. In fact, negotiating bilaterally with Japan actually gives us more leverage as we're seeking to enter TPP.

I guess my point was just that if we had a preference between either, we'd rather see negotiations multilaterally through TPP. But I think you're right; we can't sort of sit on the sidelines and just wait for others. The U.S. has its own thing. Mexico has its own free trade agreement with Japan. I'm not too familiar with the terms of that and the impact it has had, but I think it's interesting to know that one of the NAFTA partners does have an FTA with Japan.

Mr. Gerald Keddy: I think we all agree that the multilateral forum is a better forum, but we tried that with Doha for a number of years, right, without a whole lot of success.

I would just go over to Mr. Wilkinson for a moment. I'd like to have a little more in-depth discussion of your delegation and your Japanese reception.

I'm thinking of a comment, actually, that Marc-André Morin made this morning at another meeting about the whole Japanese psyche. If we negotiate too hard.... You can't jam them into a corner.

So they have actually come to us. They are willing to put certain things on the table. I'd like you to just expand on that a little bit and on the importance of not just what can come out of this but the importance of negotiating in a relationship and building on the relationships we already have—being aggressive, but not so aggressive that we force them away from the table.

Mr. Peter Wilkinson: Yes, at the end of the day, negotiations are about discussions between people. I think you have to be concerned about the concept of face for everyone; that everyone comes away from negotiations feeling that they have won something. They've also given up something, but they've won something to their benefit.

As I was saying, Manulife first went into Japan in 1901. We were asked to leave in 1939 for awhile, and then we came back in the 1990s again. Our discussions and interactions with the Japanese government and Japanese business people have always been very fruitful. They were at times longer than we liked, but I think that's a difference in business culture more than anything else. At the end of the day it is about relationships and having frank discussions with people about what's important to us, what's important to them, and coming to a conclusion that works for everybody.

I suspect that the conversations will actually be tough on both sides at the negotiations table. I believe that the folks from the Department of Foreign Affairs and International Trade and our professional negotiators from the Government of Canada have long experience in doing this with many people around the world, and they will do a very good job for us on it. It will be beneficial to everyone.

As you were saying, we saw an opening back in September 2011 that none of the CEOs who have been going to Japan for a number of years had ever seen before on this issue. There was a willingness—a more dynamic sort of feeling in the country in the business, political, and bureaucratic circles—for handling this issue. That's why we came back very enthused about it.

● (1140)

Mr. Gerald Keddy: Excellent.

Do I have time for another quick question?

The Vice-Chair (Mr. Don Davies): You have 30 seconds.

Mr. Gerald Keddy: To Mr. Phillips, when you were discussing grains you kind of trailed off about there being room to improve our market for quality wheat. I'm assuming it's outside of durum and other wheats, but just good hard wheat.

Can you expand on that a little?

Mr. Richard Phillips: Sure.

We have a very long history of exporting wheat to Japan, but they're very, very specific with their quality parameters. If you can meet those, then there's a premium price attached to that.

In Canada we're very good at that, whether it was through the Wheat Board or whether the private sector was selling via the Wheat Board. We've always met the specs they're looking for. We will continue to do that.

Canada has a grain-handling system that makes it easy for us to segregate our grains virtually by field in western Canada. That's what they're looking for. So when we were over there they were looking for assurances that we will continue to manage our systems such that they will get access to those—providing, of course, they're prepared to pay the price. So they were looking for that assurance.

I can tell you that some of our competitors have been over there spreading stories that we will not be able to provide them with quality wheat, and that they therefore should be buying from the United States or Australia. We went over there directly to meet with the flour millers to reassure them that Canada is here to do business.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Phillips.

From the Liberal Party, Mr. Easter, for seven minutes.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair.

Welcome, folks. Thank you for the presentations.

Mr. Laurin, you talked about an area that I think is extremely worrisome in this country as a whole: the deficit on the manufacturing side and the surplus on the natural resources and commodities side.

In this country, it's great to see the oil, natural gas, and commodities industries doing well, but that masks to a great extent what's happening in the rest of the economy. The economy's here because of how well the oil industry is doing. The manufacturing sector is extremely important to wealth generation and jobs.

You mentioned that barriers to trade and investment are structural in nature. How do you see this potential agreement overcoming that, and what needs to be done to overcome it in a way that will benefit the manufacturing sector?

● (1145)

Mr. Jean-Michel Laurin: Thank you, Mr. Easter. That's a very good question.

I think one thing that has been keeping our economy out of recession and actually probably positioning Canada as one of the leading economies in the developed world is our natural resources sector. I know there has been some talk about that driving up the value of the dollar and affecting manufacturers in a negative way. I don't share that view. I think the resource sector has been supporting growth in the manufacturing sector, because as I indicated earlier, a significant proportion of these sectors purchase goods from the manufacturing sector in Canada.

That being said, I think increasingly our members are looking at diversifying their export markets. Our existing customers, and especially the United States, are not buying, and will not be buying in the foreseeable future, as much as they used to. If our companies want to grow, they need to look outside of North America for additional customers and for more business.

To that extent we're very supportive of the government's trade agenda in terms of dealing with trade barriers that Canadian companies are encountering in foreign markets.

For some of those markets, especially in the Asia-Pacific region, we have to be very strategic in how we look at this. We're certainly supportive of the negotiations with Japan moving forward. There's no shortage of trade barriers, as I mentioned earlier. Can we actually effectively address them in trade negotiations? I think it's interesting to note that Japan seems to be coming to this in good faith and they realize that their world has changed as well and they need to open up their market.

I think your question was about what needs to be done if we want this FTA to benefit our manufacturing sector. I think the good news is that there is some complementarity between our two economies and even in the manufacturing sector. As I said earlier, it's a mature market. There should be demand there for the kinds of goods we can produce.

In terms of the agreement, we certainly support an ambitious agreement that looks at tariffs, deals with non-tariff barriers, the movement of capital, and the movement of people, and looks at strengthening our dispute-settlement and dispute-resolution mechanisms. I think an ambitious agreement certainly holds potential.

When we talk to our members, I think there is some skepticism about Japan's ability to actually address some of those trade barriers, but then, not all of my members were on the delegation that Peter participated in, and it seemed, from what he was sharing, that it was an eye-opening visit.

So to that extent, I think we have a window of opportunity. I understand the government wanting to seize it. But at the same time, we have to be mindful that this is a market that for historical reasons our manufacturing sector has had a hard time with. It's not because we haven't tried. I think we've had persistent barriers, and to the extent that we can actually get rid of them, I think that would be great for our manufacturing sector, because it's a large industrial market.

Hon. Wayne Easter: Thank you.

I think, Peter, you had mentioned that you need to address—and I quote—"doing business" in Japan. You also mentioned double taxation. What do you mean in the double taxation area? Is that about people who are doing CEO work or management work in Japan and who are taxed double? Would you expand on that?

On the insurance business in total, you indicated that Japan Post Insurance is 30% owned by the government. What are the implications of that in terms of our insurance and investment community doing business in Japan versus them being able to do business here? How does it affect us on a competitive basis? I expect that 30% is not going to be reduced as a result of a trade agreement.

Mr. Peter Wilkinson: Mr. Easter, let me take the first one, and then I will say one or two words about Japan Post. I will then ask Janice if I have missed anything.

On the double taxation social security issue, it's not a completely uncommon issue, when you are trying to move your executives around the world that, if tax treaties are not exactly straightened out the right way and stuff like that, people end having to pay tax in both jurisdictions, and it's not accounted for in the other one. Our people end up having to pay a lot of tax. It becomes difficult for us as a global company, which we are. We are in 11 different territories in Japan, we are here in Canada, and we're big in the United States. It becomes very hard to move our people, not just Canadians but also if we want someone else to come here on a temporary assignment. We just need that sort of cleared up.

On the Japan Post issue and on the insurance, the simplest way to explain why we are concerned about Japan Post Insurance is that if Manulife wants to bring out a new product in Japan, we have to go to the regulators. We have to explain what it is. We have to show what its benefit is, how it's going to operate, and whether we have enough capital reserves to put that product out. Therefore, if we sell something, people know they will get paid out no matter what. Japan Post Insurance doesn't have to do that. They just sort of walk in and announce by press release that they have a new product and it's going out; regulators have never looked at it.

So it's a bit unfair to us. And it's not only unfair to us; it's unfair to the private sector companies in Japan who are domestics in there. That's the simplest and easiest way to explain it.

Janice, is there anything else you want to add to that on Japan Post Insurance?

● (1150)

The Vice-Chair (Mr. Don Davies): Give a brief answer, please.

Ms. Janice Hilchie: Okay.

There's also the aspect of distribution. Japan Post is actually four different corporations, which includes insurance, banking, and the postal services. Under the new legislation, Japan Post Insurance has almost exclusive access to distribution through the Japan Post network, which also creates an uneven competition with other private insurers.

The Vice-Chair (Mr. Don Davies): Thank you.

We now have Mr. Holder from the government Conservative Party for seven minutes.

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

I'd like to thank our guests for being here today. It has been very interesting so far.

I happen to think we have a very unique opportunity in terms of our discussions right now because we are at the very earliest stages of our dialogue with Japan. In fact, for those who don't know, it was back just on March 7 of this year that both Canada and Japan released a report which they called the “Report of the Joint Study on the Possibility of a Canada-Japan Economic Partnership Agreement”. I think the testimony that you provide today is helpful, I think, in shaping some of this as it goes on.

It's interesting, Mr. Laurin; I have heard you make presentations to our committee before, and you seem to be more tentative today, more careful with the words you use in terms of your support for this.

I have heard you say...and I frankly took a little more confidence as you were talking, in some of your testimony since. But it just seemed to me that you were being more mindful and tentative with that support. Why is that?

Maybe my perception is wrong, by the way.

Mr. Jean-Michel Laurin: No, I think your perception is right. I don't know if “tentative” is the right word. I think we're just a little bit tentative; “cautious” would be a good way to characterize it.

As I said, they are a large, mature, industrial market. They have companies that are leading companies in different sectors around the world. Many of them are actually present in the Canadian market. From a manufacturing perspective, we have had a persistent trade deficit in manufacturing with Japan for a long time, but some Japanese companies have invested in Canada, and we have benefited from those investments. As I said, our members can compete around the world on a level playing field. There's no question about that. We achieved record export sales levels to China, South America, and Europe last year.

Mr. Ed Holder: So you would say you're optimistic, then?

Mr. Jean-Michel Laurin: Companies are investing in growing business in other markets. The issue with Japan is that those trade barriers are tough to deal with.

Can Japan effectively deal with them through a trade negotiation? I don't know. I haven't seen them do it before. I understand they are pursuing a trade agenda that includes Canada and other countries. Now, to what extent can we actually address those trade barriers, especially the non-tariff barriers? I mean, there are certification issues, product entry issues—

Mr. Ed Holder: So is it fair to say—I'm short, because I want to direct a number of my comments to the folks from the insurance side —that hence your stronger support for a TPP, but having said that, who knows, quite frankly, whether that's going to happen, so...?

Mr. Jean-Michel Laurin: Exactly.

Mr. Ed Holder: So at least as a general comment, your support of Japan is TPP, yes, and if not TPP, certainly at least Japan....

Is that a fair comment?

Mr. Jean-Michel Laurin: Yes. That's a fair comment.

Mr. Ed Holder: I'm going to have to leave it there.

I apologize to Mr. Phillips, as well, because I think there would be others that do that.

I'm going to use my old 30-plus years' insurance background— which just means that I'm old. I'd like to ask you to focus more on Japan Post and Manulife, as well.

Manulife, Mr. Wilkinson, regardless of Japan Post, seems to have had some dramatic success versus other Canadian insurers in Japan. I would like to know, quickly, why that is. And to what extent do you believe Japan Post is truly an impediment to your doing business there?

• (1155)

Mr. Peter Wilkinson: We've had success in Japan, since we went back in the 1990s, because we purchased a company to get back into Japan. It had a fairly good share of the market and an interesting product. Our management of it has gone well. We've had good management and good partnerships there.

On the Japan Post issue, I'll put it in a different way. Why are they a problem, not only for us but for all foreign and domestic insurance providers in Japan? It's like you're playing a hockey game, and one side has sticks, and we have half-sticks with no blades on them. They can start to do stuff before we can. They don't have to go through the regulator. It's an unfair thing. We've talked about it, as Janice has said. The Americans have said it. A bunch of people have. That would be the big issue for us.

Japan Post is the largest life insurance company in the world, and they're basically owned by the Government of Japan. They have access to everybody through the post office.

I mean, think about that in a Canadian context, if we had to compete with Canada Post every day and they could send someone to someone's house.

Mr. Ed Holder: It's a good thing the government side doesn't believe in socialism, or else we might have those concerns. The good news is that we don't.

If I can, I'll come back to Ms. Hilchie on this. By way of background, how long has it been in existence, to the extent you know, as Japan Post Insurance? I think this is an important point, and that's why I'm dwelling on the Japan Post piece a little bit more than I might otherwise. It was interesting to hear Mr. Wilkinson say that it's the largest insurance company, for life products primarily, I presume, Mr. Wilkinson. Is that right?

Mr. Peter Wilkinson: Yes.

Mr. Ed Holder: They're the largest life carrier in the world. When did the Government of Japan choose to take a 30% interest, or is that how its history evolved? Do you know offhand?

Ms. Janice Hilchie: Back in the mid-2000s, in 2005, there was a bill passed in the Japanese diet to privatize Japan Post. In 2007—

Mr. Ed Holder: Excuse me for interrupting. It started as a public company.

Ms. Janice Hilchie: Yes, that's right.

It was subsequently split into the four corporations: banking, insurance, and two for postal services. Because of politics in Japan, in 2010 those reforms to privatize were stalled. The four companies are owned by a holding company. The Japanese government holds, I understand, 30%.

Mr. Ed Holder: You indicated in your testimony that Japan Post Insurance is 30% owned by the government. Who owns the other 70%?

Ms. Janice Hilchie: Effectively, the whole of Japan Post is owned by the government. The 30% represents the shares that have been released for ownership, if you will. I don't pretend to quite understand how that works.

Mr. Ed Holder: That's not clear from your testimony, the way I've read it. I read that to mean that 70% of Japan Post—

Ms. Janice Hilchie: Is it owned by someone else? No.

Mr. Ed Holder: Could I then ask, through you, Chair, perhaps if there's an ability to the extent that you have more background on that, to present that through the chair? That would be helpful to us to understand that better.

Ms. Janice Hilchie: Yes, we could do that.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Holder.

Yes, Mr. Easter.

Hon. Wayne Easter: We are going to Japan. Can we ask our people to line up a meeting with Japan Post when we're there?

The Vice-Chair (Mr. Don Davies): Certainly. We'll pass that request on to the analyst.

Before we go to the second round, I have one quick comment and a quick question. My comment is that I didn't think Japan was a socialist country. Certainly it wasn't during World War II and certainly hasn't been since.

Mr. Ed Holder: If I gave that impression, Chair, I withdraw it.

The Vice-Chair (Mr. Don Davies): Thank you.

My quick question is maybe to Mr. Wilkinson. We did some quick research up here so it's not terribly in depth, but we understand that there is a double taxation treaty between Canada and Japan that was signed in 1986 and amended in 1999.

I'm just wondering if you felt there were provisions of that agreement that needed review.

Mr. Peter Wilkinson: We just need them reviewed. It's been a long time and so we just hope to make it easier. Yes, Chair.

The Vice-Chair (Mr. Don Davies): Okay. If there are any particular aspects that you think ought to be looked at, the committee would be happy to receive that information too.

Mr. Peter Wilkinson: Certainly. We'll send that off to you, Chair.

The Vice-Chair (Mr. Don Davies): Thank you.

We're going to start the second round of five minutes.

We'll start off with Madame Papillon from the New Democratic Party.

• (1200)

[*Translation*]

Ms. Annick Papillon (Québec, NDP): Thank you, Mr. Chair. I also want to thank all of you for joining us today.

My first question is about the imbalance between natural resources and manufactured products.

We are concerned about that, as we are wondering what it will mean for this free trade agreement. We are wondering about the harm our manufacturing sector may suffer. The fact is that, last year, 24 of the 25 top products Canada exported to Japan were raw materials, commodities and food. That data comes from Statistics Canada. We would like to know whether any manufacturing companies will lose out in the deal. Could this be one of those exceptions that proves the rule that manufacturing companies may be unprofitable at this time? What do you think, Mr. Laurin?

Mr. Jean-Michel Laurin: As I mentioned earlier, the manufacturing sector has more at stake than anyone else in these negotiations. The fact that the main Canadian exports to Japan are natural resource products shows that Richard and his mining sector and natural resources sector members have done excellent work to penetrate that market. Japan certainly needs to import natural resources because of its small size and its fairly considerable needs. The question is knowing how to make sure we can also export products that are higher up in the chain, such as manufactured products and services. We have here some representatives of Manulife Financial, who work in the service industry.

As I was saying, we are not claiming Canada should not export natural resources to Japan. We rather think that we should diversify our exports to Japan. In theory, a free trade agreement could help us diversify our exports, provided that this agreement addresses the main concerns of other sectors of the economy, including ours, which are facing barriers. We are talking about non-tariff barriers.

I would like to talk about one of the obstacles our members face. When they want to penetrate a foreign market, they don't necessarily want to begin exporting directly from Canada. Therefore, they decide to acquire a company in another market. That often happens in the United States. In fact, a company buys a competitor—in other words, a company from the same sector in another market. It is very difficult to do that in Japan. Manulife Financial seems to have done so in the 1990s, but that is an exception. There are many barriers, such as corporate governance rules that are very different in Japan. Much has been written about that. I know that, for companies, traditional ways of penetrating that market often do not work because of non-tariff structural barriers, regulatory barriers and other types of barriers. If a free trade agreement could address those concerns, that would be very good news for us.

However, as I was saying earlier, we will wait and see how the negotiations turn out. I think that the Japanese are negotiating in good faith, as are we. So there is a lot of potential, but at the same time, many questions remain.

Ms. Annick Papillon: It is completely normal to be wondering about the manufacturing sector, especially since, let's not forget, many jobs have been lost in the Canadian manufacturing sector over the past few years. That's why we are concerned.

In addition, the oil and gas industry could take advantage of the Japan market opening up to boost its exports, which totalled \$1.9 billion in 2011. You said that you represent 10,000 Canadian companies. Could you tell me approximately how many of them may have ties to the oil and gas industry?

Mr. Jean-Michel Laurin: A significant number of them do, but I don't have the exact figure. Many of our members are taking advantage of the oil and gas industry's growth across Canada, be it in the maritime provinces or in the west. Our industrial base is increasingly leaning toward repositioning itself, not only by diversifying its export markets, but also by diversifying its sales in various sectors. For instance, several of our association's member companies were long-time suppliers, especially in the Ontario auto industry. Today, they are manufacturing advanced metal products and trying to position themselves. They have been successful in that endeavour and are selling their products to the oil and gas industry, especially in the west. Therefore, I think that the oil and gas industry's growth has benefited a number of the country's manufacturing companies. We still need to figure out how to make sure the manufacturing sector can benefit even more from this growth.

I think that Canada has a nice problem on its hands. How are we to benefit from or maximize the profits of the oil industry's growth? I know that the Americans and the Europeans, among others, would very much like to have the same problem right now.

● (1205)

[*English*]

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Laurin.

We'll go to Mr. Shipley from the Conservative Party for five minutes.

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

Thank you, witnesses.

I'd like to go to Mr. Phillips first. We had the cattlemen in, and we've heard the very strong support for this I think throughout the whole agriculture industry. You mentioned something, though, that was a little disturbing to me, and that was that you had to actually go back over to Japan to discount some of the false allegations about us being able to provide a quality product to Japan, which we already are doing, but I guess to re-confirm that.

How were you received when you went back over there?

Mr. Richard Phillips: The meeting went very well. Part of it is what our competition is out there alleging—i.e, you know, you should come and talk to us, because we'll be able to meet your quality specifications.

Part of the concern was that, as we know, the future of the wheat board was a very divisive issue among many farmers. The Japanese read the press clippings every day. Some people said the wheat board could work and some people said the wheat board couldn't work. That's what caused a lot of concern.

Our competitors took that information and were using it to suggest it probably would not work and there would be no wheat, that everything would be commingled and our quality levels would drop.

So it was very good to be there, and having the Canadian Grain Commission there was good, because they could explain how they are going to continue to inspect the grain and issue certificate finals on grain leaving.

Having Ian White of the Canadian Wheat Board was also very positive, because whether it's the wheat board or agents of the wheat board, when you're dealing in Japan, change doesn't come quickly, in many ways. The wheat board has had long relationships with the Japanese buyers, and Ian White was there to assure them that they'll continue to do that.

I spoke as a producer there, saying that producers will continue to be growing good-quality wheats in Canada.

Mr. Bev Shipley: When you talked about the opportunities in Japan, you said we have great markets, they recognize our quality of product, they pay a premium for that, so what opportunities do you see then in terms of growth? Help us by explaining how those opportunities will continue to grow, if they will.

Mr. Richard Phillips: One area I'm talking about is the tariff escalation where they allow the raw products into Japan at one tariff rate, then a much higher tariff rate if you want to send any value-added products.

Canola is a good one. You can ship raw canola seed, but you pay a much higher penalty if you want to ship canola oil. That canola oil, when you're adding that value, means manufacturing jobs back here in Canada.

So we see a free trade agreement as the opportunity to actually tackle those tariff lines and bring them down, whereas simply negotiating outside of a free trade agreement the answer is always a very respectful no. No matter how many times you ask, it's still no.

Mr. Bev Shipley: Do you have any idea what that value-added would actually add in value to our producers if we were able to bring those in closer perspective?

Mr. Richard Phillips: I would have to make a commitment to come back with some numbers, through the chair.

Mr. Bev Shipley: Okay. Perhaps you could help us with that, because I think it's important to the industry.

Mr. Wilkinson, you mentioned something that hasn't been brought up; you were talking about the need to work on a better or a more effective dispute resolution mechanism.

Can you tell us what you mean by that in terms of “what now” in some areas that are seen to be an issue and what you would see as an effective mechanism to talk about?

Mr. Peter Wilkinson: I'll make one or two comments, then give it to Janice.

I think we'd be in favour of an investor-state dispute settlement mechanism to be worked into this agreement. If we had an issue, it would allow an insurer like Manulife to go directly to the Japanese government to say that we had a problem to deal with.

Ms. Janice Hilchie: Yes, I agree with what Peter has said, that the existence of an investor-state dispute settlement mechanism would give a greater level of security to Canadian insurers investing in Japan. Its existence helps to keep governments in line with their obligations under the agreements. The ability to go straight to a government, rather than go through our national governments, would provide an extra level of comeback.

● (1210)

Mr. Bev Shipley: Is it in place in other areas that you're trying to refer to?

Mr. Peter Wilkinson: We have something similar to that in NAFTA and so on. It's trying to replicate that. Under a WTO sort of arrangement, a private company would have to go to its own national government first, convince its national government first that they want to take on the issue, then they go to the government where you're having the problem. It slows it down quite a bit and drags it out.

Mr. Bev Shipley: I think my time is up. Thank you very much.

The Vice-Chair (Mr. Don Davies): We're now going to go to Mr. Sandhu for five minutes.

Before we do, I'm going to take a minute of that and pursue that line of questioning, if I could.

Investor-state provisions, I'm informed, generally had their origins in us having trade agreements or FIPAs with countries that have immature judicial systems. I think one of the reasons chapter 11 was provided in NAFTA was because of our concern over the Mexican judicial system.

I also know Australia and India now do not put investor-state provisions in their agreements. Because Japan obviously is a mature democracy with an established rule of law legal system, I'm wondering whether or not we really need an investor-state provision in an agreement with Japan.

I'll throw that out and get your comments on that before I turn it over to Mr. Sandhu.

Ms. Janice Hilchie: We're actually not aware of that provision ever being used in the case of Canadian insurers under the NAFTA arrangements or anywhere else. It just, on the face of it, appears to be an extra level of security, and given the situation with Japan Post, for example, would give more latitude to our companies operating there to directly address the issue with the Japanese government.

That being said, we are getting very good support from our own Canadian government on this issue, and there is an understanding that Japan is offline with its obligations under the GATS and on the Japan Post issue. We're certainly working with our own government as well on that issue.

The Vice-Chair (Mr. Don Davies): Thank you.

Mr. Wilkinson.

Mr. Peter Wilkinson: I have nothing to add. Thank you.

Mr. Don Davies: Thank you.

Mr. Sandhu.

Mr. Jasbir Sandhu: I'm going to follow up with one more question to Mr. Laurin.

I want to focus on the large manufacturing automobile industry in the southern Ontario region. I think that's one of the concerns that has come up repeatedly in this committee.

Historically we know Japan has been very protective of its automobile industry and we've had trouble getting access to that market, whether it's through trade barriers or non-trade barriers.

Would you see, in the agreement that's being negotiated, this being a key part of it, that we have access to the Japanese market in regard to automobile sales and parts sales? Would you see this as a key element of this EPA?

Mr. Jean-Michel Laurin: I can't speak on behalf of the auto sector—I assume you'll be inviting them—but I can tell you that we have members in the automotive sector, including their supply chain partners, and it's a key issue in these negotiations.

Obviously we have an auto tariff, and despite that we still see motor vehicles as a number one export from Japan to Canada.

You're right; I think my sense when we talk to our auto members is they're willing to compete around the world as much as they have an open and reciprocal market access. With Japan I think there have been some persistent attempts by Canadian and U.S. automakers to penetrate that market throughout the years, but they've been facing some pretty steep barriers in terms of getting their products certified for sale to that market, changing requirements, and difficulties setting up their own distribution and service networks.

I'd rather let them speak on those specific issues. All I can tell you is that this is a critical aspect of these negotiations. We can expect Japan to want to put this issue on the table, and we should definitely put the issue on the table as well.

That being said, for us to be able to support the agreement once it's finalized, I think it needs to be something that provides a net benefit to the manufacturing sector, and the auto sector is really one of the key sectors in the Canadian manufacturing sector. To the extent that it addresses their issues, we'll be able to support these negotiations and the conclusion of an agreement.

I hope that answers your question.

Mr. Jasbir Sandhu: Thanks.

Mr. Phillips, we met earlier this morning. It's good to see you again. We talked about net benefits to the agriculture industry in Canada. We also talked about some trade barriers, not only the Japan side or other countries, but there are also some trade barriers in regard to our ability to get our products to destinations. Increasingly we're moving towards just-in-time processing.

Can you expand on that and let the committee know what those barriers or issues are here in Canada?

● (1215)

Mr. Richard Phillips: Thank you very much for the question.

In our discussions we were talking about how it's one thing to open up the markets and get access, but can we actually get the grain from the prairies to that marketplace in time? Can we get identity-preserved soybeans from Mr. Easter's island to the Japanese or European market on time?

One of the challenges we have there, probably one of the most significant challenges, is our rail system. We pay a lot of money for the freight, and we can afford to pay the money but only if we're going to get good service with that freight.

One of the challenges, and we intend to keep the government's feet to the fire on this one, is to ensure that we see a rail service review go through that has meaningful and real pieces to it that shippers can use to ensure that we get the freight on time for what we need, and that would go far beyond just the agriculture sector. That would go for many of our manufactured goods and our lumber and our forestry and everyone else. That's one of the key pieces we need to see, or we're not going to be able to....

The free trade agreement gives us the opportunity to be successful, but if we can't move our goods and services there in a timely manner, we will not be able to take advantage of those opportunities.

Mr. Jasbir Sandhu: Any successful industry would need an infrastructure in place to be able to get their goods to the market.

We talked about this earlier, and I take it that you have approached the government in regard to some of the difficulties that you're having getting your product out to the market. Has the government offered any solutions?

Mr. Richard Phillips: There's a rail service review under way. Mr. Dinning is chairing that, and it's one of those things where you start off with a high level of ambition but the longer the railways lobby against you the weaker the ambition seems to get. We are working; we have a coalition that represents approximately 90% of the freight revenue of CN and CP. It's a huge coalition. We're continuing to pressure the government and Mr. Dinning to ensure that it's real, that those provisions are real, that it doesn't get watered down and give the power back to the railways.

This opportunity may not come again for another 20 years.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Phillips.

Next is Mr. Hiebert from the government for five minutes.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you.

I'm going to turn back to Ms. Hilchie and Mr. Wilkinson and discuss the Japan Post Insurance situation just so that members of the committee can further appreciate, and I can further understand, what's happening there.

What you've told us so far is that this is a publicly owned company with four groups, and effectively then the Japanese people own this insurance company as they do the postal service and banking and so on.

What's the downside to having the public own this insurance company? Is it akin to putting their national interest at risk if there was a catastrophe like we saw?

Mr. Peter Wilkinson: Mr. Hiebert, I would say the issue for us is not so much who owns it as much as how it's allowed to operate in the marketplace in that it has special privileges that we don't have.

Under the new act, they'll be allowed—this is a simple one, and I'll go back to it again—to offer product by notification where we will all have to, in the private sector, get approval from the regulator. We actually...that's a good idea.

Mr. Russ Hiebert: Let's take that a little bit further. You did mention in your remarks that you would like them to be required to offer universal and public services in perpetuity. Basically, they're not providing the whole spectrum of insurance products that Manulife or maybe other competitors provide.

Can you help us understand why that's necessary? How can you force a company or expect a company to provide products that they choose not to provide?

Ms. Janice Hilchie: In the context of the legislation that was just passed, that legislation, if enacted, would impose upon Japan the obligation to provide those products. It's state owned and the government wants to apply that requirement to it, and we are saying that private insurers, including foreign insurers, should also have access to those distribution networks provided by Japan Post.

Our issue is really that there needs to be national treatment for all insurers operating in Japan, and currently Japan Post has several very strong advantages over other competitors.

● (1220)

Mr. Russ Hiebert: Of course with the access to the postal service, it would obviously have that advantage.

You also made mention of the fact that it runs contrary to Japan's international trade obligations, in that the global insurance industry has expressed serious reservations about their treatment.

Can you help us understand what international trade obligations are being violated at the present time?

Ms. Janice Hilchie: It's our view that the principle of national treatment under the GATS obligations is being infringed by the existence of these advantages to Japan Post.

We have participated in a coalition with other international insurance associations and trade groups for a number of years now, since the privatization plan for Japan Post has stalled, to advocate towards the Japanese government to continue with its undertakings to privatize the company by 2017. With the passage of this legislation this year, we see this as a serious setback. If it's acted upon, it is really going backwards on the obligations that Japan has under its trade agreements.

Mr. Russ Hiebert: So it's not just Canada that has a concern about their proprietary access.

Ms. Janice Hilchie: That's right. There's Europe, U.S., and Japan itself.

Mr. Russ Hiebert: Has anybody filed a WTO complaint?

Ms. Janice Hilchie: No. There hasn't been a formal complaint filed. We really are working through diplomatic means to try to resolve this.

Mr. Russ Hiebert: What's the feedback that you're getting?

Ms. Janice Hilchie: Well, it still is an outstanding issue that hasn't been resolved yet.

Mr. Russ Hiebert: Certainly the insurance providers within Japan would not like to be competing with their own government in this particular area. Are they offering substantial pressure for reform?

Ms. Janice Hilchie: The domestic insurers in Japan are similarly disadvantaged by these provisions, and they are also seeking a level playing field.

The Vice-Chair (Mr. Don Davies): Thank you, Mr. Hiebert.

Mr. Shory, for five minutes.

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

Thank you to the witnesses for being here. It seems like this agreement will be beneficial for Canada and also for Japan.

Mr. Laurin, I need to ask you one thing. If I heard it correctly, you made a comment in response to one question that the resource sector has been supporting growth in the manufacturing sector.

I'd like you to elaborate on that.

● (1225)

Mr. Jean-Michel Laurin: Well, for starters, as I indicated earlier, the analysis we have access to shows that a little less than a third of our natural resources produced in this country end up being processed by the manufacturing sector in this country. So the resource boom, if you want to call it that, I think has benefited the manufacturing sector.

In fact if you look at the industrial sectors that have experienced the fastest growth levels since the recession, you'll see that sectors connected to the natural resource supply chain have tended to do better. Those are things like machinery and equipment, fabricated metal products, and so on and so forth.

We often talk about the oil and gas sector, but to us it's the forestry sector that is growing very strongly in northern British Columbia. It's the oil and gas sector in Alberta and parts of Saskatchewan. It's uranium in Saskatchewan. It's Richard's members, and all the agrifood producers who are taking advantages of higher prices and growing demand in international markets. It's the mining sector in northern Quebec, with the Plan Nord.

In northern Ontario we're seeing the same types of investments taking place, and in parts of Atlantic Canada as well. We've got that going for us, and I think the issue for manufacturers is how we can connect with those supply chains, how we can benefit from those investments.

For example, if you talk to the mining equipment sector, we're one of the best countries. We have some really good companies that were able to start 20 to 30 years ago supplying the oil sands and projects in northern Ontario. They now do business all over the world. In fact the best place for me to get information in terms of market access issues tends to be those companies because they operate in markets all over the world.

To see this as an either-or proposition, that what's good for the resource sector is not necessarily good for the manufacturing sector.... We see the two sectors as being very strongly connected.

Now, in the context of these trade negotiations with Japan, I think it's been great that our natural resource sector has been able to take advantage of opportunities in that market. The opportunity and the potential we have now is to diversify our trade with Japan and let other sectors of the economy take advantage of that market.

Mr. Devinder Shory: Mr. Phillips, we heard from some other witnesses last week that Japan pays premium prices for premium-quality products. That means more dollars in farmers' pockets. Will that also mean higher profits and more jobs in Canada? How would it increase jobs and productivity here in Canada?

Mr. Richard Phillips: When we grow grains in Canada, there are two major areas: one for human consumption, another for animal feed. If our beef and pork industries gain more access to the Japanese market, then that's a good place for our feed grains to go, because our feed grains are worth less money and the freight to get them to port position takes a huge chunk of their value.

So if we can feed that domestically here, it creates jobs. Somebody takes it down to the feed mill to be ground up into feed. Then somebody has a cattle feed lot—there are some cow-calf operators. Then the cattle go to slaughter plants to be slaughtered and cut up, put into containers, and moved out to port position. Every step in that value chain adds jobs and wealth here in Canada. So if we can add those value-added meat cuts and get access to these markets, then everybody benefits all the way down to the grain farmers.

Mr. Devinder Shory: This question is for everyone, basically.

Do you think that our presence in Japan will help to open doors to other markets in Asia?

Mr. Peter Wilkinson: Yes, Japan is a good place for access to the Asian region, because it is a well-developed democracy with a good legal system. So it would be perfect for that.

Mr. Jean-Michel Laurin: I think Japan has some potential. To the extent that they're negotiating trade agreements with other countries in the Asia-Pacific region, they might become more of a platform for companies that want to establish a presence in the region. Traditionally, though, companies have looked more at Singapore and Hong Kong as gateways to all of Asia. The legal system, the tax structure, our agreements, access to infrastructure that can easily serve markets throughout the region—these are all critical elements. To the extent that Japan could replicate that, I think it could serve more as a gateway for Canadian companies that want to access all of Asia. But up till now, people have looked to Hong Kong and Singapore as places to set up operations to serve the region.

The Vice-Chair (Mr. Don Davies): Thank you, Monsieur Laurin.

Madame Papillon.

[*Translation*]

Ms. Annick Papillon: Thank you very much.

I would like to come back to what I was saying earlier.

Mr. Laurin, you represent many members. I know that you represent many Canadian companies located in the west or the east of our great country. Do some of your members have more concerns regarding this agreement? Are there certain regions that could benefit from it because they have resources other regions do not have? Have you noticed an imbalance among Canada's regions?

● (1230)

Mr. Jean-Michel Laurin: It is certain that the manufacturing heart of Canada is located in the central part of the country—in Ontario and Quebec. Over two-thirds of Canada's manufacturing sector and manufacturing activities are concentrated in that area. Those two provinces probably share the concerns I expressed in my comments.

That being said, as I mentioned earlier, if the resource sector had better access to the Japanese market and could increase its production and exports, the manufacturing sector would certainly benefit in turn.

However, when our members assess the negotiations of a trade agreement with Japan, they realize that it is more of a situation where, in general, the Japanese companies have fairly good access to the Canadian market. Of course, there are custom tariffs on many of their products, and the Canadian market is not always easy to penetrate. However, it should be said that there are fewer trade barriers and restrictions for a Japanese company that wants to do business in Canada than for a Canadian company that wants to go to Japan.

As I mentioned, those factors partially contribute to the trade deficit with Japan when it comes to products and goods manufactured in Canada. That being said, in the context of a free trade agreement and provided that some of those barriers can be eliminated, we may be able to do more trading with Japan and to increase our exports to and investments in that country. That's a promising situation for us.

Quebec and Ontario manufacturing companies want to export elsewhere in the world. For those companies, access to foreign markets outside of North America is becoming increasingly important. Companies are devoting more and more resources to the development of those markets.

A number of sectors in the Japanese market should normally be very attractive. Unfortunately, entrepreneurs have often given up on the idea because it was too expensive, too complicated and too risky to try to increase their exports to that market.

Ms. Annick Papillon: That's true.

In addition, we see that the Japanese have a lot more difficulty importing our manufactured products. They sometimes find that there is insufficient surplus value involved. That challenge will probably have to be addressed. We will have to ensure to have the edge over German or French products that are perhaps more attractive to them.

How can our Canadian manufactured products be made more interesting, so that the Japanese can benefit more from them?

Mr. Jean-Michel Laurin: That's a good question.

The Japanese industrial sector has not developed by accident. That country adopted a concerted strategy, after the Second World War, in order to build a world-class industry.

Today, Japan is in an enviable position, but so is Canada. Our manufacturing industry is also of world-class quality. Many of the two countries' sectors complement each other. We would benefit from engaging in more trade with one another.

Richard pointed this out very nicely in his comments. For us, one of the advantages of Japan's market is that the Japanese are prepared to pay more for a quality product. I think that's in the best interest of our manufacturing industry, given that what is increasingly setting us apart on international markets is the manufacturing of innovative and high-quality products.

Ms. Annick Papillon: Do you have any examples?

Mr. Jean-Michel Laurin: We may look at the aerospace industry or the electronics sector. RIM is often used as an example. However, many of our members manufacture products, ranging from mining equipment to electronics.

Ms. Annick Papillon: Do companies succeed in standing out in those sectors of the Japanese industry?

Mr. Jean-Michel Laurin: In Quebec, we often think of the furniture and textile industries. It is said that those are traditional industries on their way out. Of course, those sectors have experienced difficulties over the past few years. People often say that industries such as aeronautics are cutting-edge.

In all our sectors, if companies set themselves apart and build up their products based on quality, value added and innovation, I think there is some potential. So, for companies, in all industries in Canada —

Ms. Annick Papillon: Basically, as you were saying, what we need is a level playing field.

Mr. Jean-Michel Laurin: Yes, exactly. As long as our companies have access to international markets.

[*English*]

The Vice-Chair (Mr. Don Davies): Thank you.

Mr. Keddy, you have five minutes.

● (1235)

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

There's been a fair amount of discussion of the regulatory hurdles that we're having to leap over and through, I guess, in Japan. I know when we had the Canadian beef producers here, they talked about a 38.5% tariff on beef, and then the gate price.... Does that affect our grain sales as well? Do they have a gate price on grain that changes as you get that grain into the country?

Mr. Richard Phillips: No. For some of the crops a certain quota is allowed, and after that there are just prohibitive tariffs. Some of the other crops simply have a tariff up front, so it's not quite the same as what the beef people face.

Mr. Gerald Keddy: That seemed to be a huge obstacle for them. They understand and recognize the potential to expand that market with high-quality product. It's a great market for beef, in particular, because we offer that high-end beef and chilled pork.

One of the challenges they saw—and I don't think it will affect us in other commodities—was the difficulty the industry would face in changing some of its techniques so it could actually supply high-end beef to Japan between January and March, when typically a lot of our farmers are calving.

Are we seeing that in other commodities? With the grain, as you described earlier, we can segregate our product; we can keep it dry; and we can literally hold it for years. There's no difficulty with any of that?

Mr. Richard Phillips: No. I think grain is different that way in that it's not a living, breathing animal. Just the fact that people calve in the spring and the product has to be there before it's 21 months old means farmers just can't grow their animals quickly enough to be there on a timely basis.

On the grain side I would say one of the challenges would be segregation. For example, if a Quebec soybean grower wants to grow non-genetically modified beans for a very specific Japanese market, or a European market for that matter, and non-GM pays a premium price, one thing we have to have when we're dealing with these markets—since it's impossible to be at zero, because there may be one bean somewhere in the farmer's combine that fell in—is a low-level presence policy. In case there's an accident and just a minute amount of a genetically modified grain gets into that shipment—it could be corn or it could be soybean, and I'll use Quebec as an example—and goes all the way to Japan, we have to have some low-level presence policy that would allow that trade to continue without actually insisting that they have acceptance of GM food. That's probably one of the challenges we have, and it has to be part of the trade agreement.

So wherever possible there has to be a low-level presence policy to allow trade to continue.

Mr. Gerald Keddy: That's something like the residual level that we're negotiating with the EU.

Mr. Laurin, the manufacturing challenge for automobiles is one I don't think we're necessarily going to fix tomorrow. But the fact that we have significant Japanese automobile presence not just in Canada, but in North America, should be an asset to us. What is the duty going into Japan on North American vehicles?

Mr. Jean-Michel Laurin: That's.... I was hoping you wouldn't ask that.

Voices: Oh, oh!

Mr. Jean-Michel Laurin: I think it's actually at zero, but I'll have to double-check. My sense is that the tariffs aren't an issue when it comes to exporting cars to Japan.

Mr. Gerald Keddy: Exactly. But we're getting some squeeze from the auto sector that somehow we're going to be flooded with Japanese product. We have reciprocity, so our guys may have to simply do a better job at competing.

Mr. Jean-Michel Laurin: Again, I'm not a spokesperson for the auto industry, but we have other members—

● (1240)

Mr. Gerald Keddy: No, I'm asking you guys for your opinion about it.

Mr. Jean-Michel Laurin: There is a tariff for Japanese cars coming into Canada. You're saying maybe they need to compete. I think that's exactly what they would welcome. They'd welcome an opportunity to effectively compete in the Japanese market. Let's face it, it's much larger than the Canadian market.

But as far as their ability goes, I think the import levels for non-Japanese cars on average is about 1%, and those tend to be vehicles in very niche markets, which they don't make domestically.

Whether it's autos or any other product, if you talk to Canadian businesses they'll say they're ready to compete against anybody, domestically and globally, but they want to make sure they have reciprocity in terms of our trade agreements. Whether it's with Japan or any other market, we're pushing for the same type of thing.

Just to talk a little bit about Europe, there is a situation with Europe. On the auto side it looks as though Europe might gain more than Canada would, but I think people are willing to live with the principle that as long as we have reciprocal market access and we have a level playing field, we're willing and ready to compete with anybody. Sometimes it happens in trade deals that one side wins more than the other.

With Japan the barrier is pretty clear. It's a tariff barrier and it's very transparent. With Japan the barriers are non-tariff barriers and they're not transparent, they are opaque. So how do you actually deal with them in a trade agreement? That's actually interesting. That's probably why trade negotiators earn their money, but that's where we're looking for solutions.

Mr. Gerald Keddy: They definitely earn their money.

The Vice-Chair (Mr. Don Davies): Thank you.

Mr. Sandhu, you have five minutes.

Mr. Jasbir Sandhu: Thank you.

Richard, I just want to follow up on earlier questions. It's clear that you have to have a good infrastructure in place for our goods to be able to get to market, and having good trade deals is another factor. You've brought these concerns to the government with regard to having some difficulties with rail shipments. Somebody is looking into this matter.

What would your industry like to see the government do to facilitate a faster way of getting your products to consumers?

Mr. Richard Phillips: That's a good question.

There are probably a couple of things. One is that on rail service review, I think it's key that members of Parliament on all sides continue to reinforce to the railways that, you know, you guys have a virtual monopoly, you're taking excess profits, you're not providing good service: this will change. And then, if the political will is there for this to change, give the shippers more balance and more ability for redress when the service is poor. That's a really big piece for a lot of our shippers.

Even if you're in Quebec, a lot of stuff for this market is going to have to go across the country. Some of it will go by boat but a lot of it will go by rail. So it's really key to have that rail service.

Number two, I'll give the government some credit; they started up a market access secretariat. It deals, as you said, with a lot of the non-tariff barriers. So what we see is we'll be exporting canola into Japan or into China and those domestics will say, oh, there's a trace of a disease here: stop all the trade.

So we need the expertise from the government. It has to be fully funded. We need veterinarians, plant scientists, biologists. We need those sorts of people to come over there, work with the Canola Council of Canada and with the wheat growers to say, no, this is not a health risk to anyone. So we need that sort of support on the non-tariff barrier side, because as industry groups, we simply don't have the resources or the expertise to do that all the time.

Third, I think we need to finish off some of these trade deals. We've started Canada-EU. It's a great market. We have Canada-India, Canada-Japan, Canada-South Korea. We've got some pretty big markets out there. I think we need to actually close and sign off some of these, and have the resources and the time focused on them to get them done before we take on too many more.

I know they're all important. All markets are important. Even a small market like Morocco takes one-third of all our durum wheat every year. That's important too. But we have to start closing off some of these deals.

Mr. Jasbir Sandhu: Mr. Laurin, I've heard from your testimony that we are very competitive with regard to our manufacturing base, and we're able to compete with anybody in the world. The evidence we've seen in the last five or six years is that our trade deficit, especially in the manufacturing sector, has ballooned from $18 billion to almost $75 billion, I believe.

So there has been a huge change in the products that we import and export. It's clear in a lot of the manufacturing jobs that have been lost over the last number of years that this deficit has been widening. The trade deficit in manufactured goods has been ballooning over the last five years.

How can the government assist the manufacturers in narrowing that deficit so we can have well-paying jobs here in Canada?

● (1245)

Mr. Jean-Michel Laurin: That's a very good question. We have an eight-point plan that outlines our overall priorities for manufacturing competitiveness in Canada.

In terms of the situation you outlined, I think manufacturers have gone through a perfect storm. They've seen the dollar appreciate rapidly over the last 10 years and continue to be very strong over the last few years. Because of the strength of our economy our currency has been strongly valued, not just against the U.S. dollar but against most other major currencies, so that's an issue for any company that is exporting and pricing its sales in U.S. currency, as is the case for most of our members.

We also have seen greater competition from other parts of the world. Over a three-month period in 2008 we lost 30% of our main market in the United States. So we've gone through a lot of changes. I think what we're expecting from the government is some targeted incentives to support manufacturers investing in new technologies, innovation, and skills. We've got several recommendations in terms of how we can negotiate trade agreements that work for Canadian industries.

So yes, our members have been facing some pretty big challenges, but we're looking forward and seeing how we can compete more effectively, both domestically and globally in the future, and I think our members are used to competing against companies from all over the world, right here in Canada. We have a fairly open market, by and large.

Now the issue is how we can grow some of that market share in other countries around the world, and that's where FTAs play a very important role.

The Vice-Chair (Mr. Don Davies): Thank you.

Mr. Holder, you have five minutes.

Mr. Ed Holder: Thank you, Chair.

It's interesting, Mr. Phillips; just a few moments ago, you mentioned that you need the government to be closing off some of these deals.

I presume what you meant, just to be clear, was to sign these deals, get them in place, get all the....

Is that what you intended to say?

Mr. Richard Phillips: Yes.

Mr. Ed Holder: So not just sign them—that's kind of the starting point—but actually put them in place.

Mr. Richard Phillips: That's correct. We continue to start deals, and all of those markets are important, but at some point we need to actually finish some of these to keep our resource....

We have only so many trade negotiators. After a deal is signed, that's only the start of it, as you're suggesting. A whole bunch of regulatory stuff has to happen to bring systems into alignment for inspections.

Mr. Ed Holder: I don't want to then talk about the signed deals, particularly, because that talks about CETA, and that talks about.... It doesn't even talk about Japan, quite frankly, because we're not even there. It doesn't talk about Panama, which is somewhere in play. A lot of things are frankly in play.

I just want to remind committee members, and the panel, that we have actually—even since my time, and I've only been elected four years—the European free trade agreement, which was the very first deal that we did, which included four countries. That was Norway, Liechtenstein, Switzerland, and Iceland. Even the Norway deal was absolutely beneficial to my city of London, Ontario. I'd remind you that we've done Colombia, we've done Peru, and we've done Jordan.

So there are things that, frankly, we have done. Opportunities come from that. Of course, it's not just finishing that aspect of the agreement—and by the way, I support precisely what you say—but I want to make it really clear that there are eight countries right there, that in my short time here....

Frankly, this has been the most aggressive government in the history of Canada in putting together free trade deals. I would say to say that the ambitious deal with CETA is critical, and we agree. I think Panama has its own opportunities, and of course Japan is huge.

So I listened to the point, but I didn't want it to be lost that we haven't been closing, finishing, deals. I didn't want there to be any confusion about that. I'm sure you'd agree with that.

My question, though, is for our colleagues on the insurance side.

Mr. Wilkinson, your company has actually done it; I mean, you're there in Japan. If I understood your testimony earlier, you said that initially you bought a company to get your foothold in. Did I understand that correctly?

Mr. Peter Wilkinson: Yes, when we came back in the 1990s.

Mr. Ed Holder: Do you have anything going on from the early 1900s to...? You said that in 1939 things changed, and of course we know what happened then. Were you totally out of it and then got back in about, what, 20 years ago?

Mr. Peter Wilkinson: That's absolutely correct.

Mr. Ed Holder: You started by an acquisition.

Mr. Peter Wilkinson: That's correct.

Mr. Ed Holder: You might be able to uniquely tell us this, because you're on the ground there now, doing business in Japan, and I'd like to understand. I don't know if you've had natural growth, which I presume you've had as well. But I don't know if in your business, doing business in Japan versus in Canada, whether the actual reserves have to be different, whether it's harder to do business in Japan.

What are the impediments to growing in Japan on the services side, that you see—or have you found that it's actually worked for your company?

● (1250)

Mr. Peter Wilkinson: I would say that generally, for us, it has worked fairly well in Japan. Are there differences in regulation? Yes, there are.

There's no doubting that Canada has the most conservative regulatory regime, in regard to capital requirements, of anybody in the world, and it has the most conservative accounting system in the world. It actually, from our perspective, makes us look much weaker than we are—I think in all Canadian insurance companies, and Janice would agree—as compared to international competitors. In the world of—

Mr. Ed Holder: In Canada—if I might interrupt you—you're exceptionally significant.

Mr. Peter Wilkinson: We're number one in Canada. We are the largest.

Mr. Ed Holder: That's not too bad a position to be in.

Mr. Peter Wilkinson: It's not too bad a position to be in. But this year is our 125th anniversary for Manulife. Our first president was Prime Minister Sir John A. Macdonald, actually, when he was the prime minister.

An hon. member: Hear, hear!

Mr. Peter Wilkinson: I thought you'd like that.

Our first foray outside of Canada and into Asia was in 1897 in Shanghai and Hong Kong. We've always seen that the future for us has to be outside of Canada. Canada is a great country, but it's a small country. So we've always had to go other places.

To go back to your original question about Japan, we've had our issues with the regulators, as anybody else. I think we've enjoyed our time in Japan. We've been treated well by the Japanese government. It has been relatively easy.

Our big issue, of course, is this Japan Post issue, as we've talked about, and it's not just us.

Mr. Ed Holder: Fair enough, and I appreciate that. Domestic as well, I heard Ms. Hilchie say.

What's your concern with the strict regulatory system in Canada that you've indicated? What are your concerns about Japanese markets coming into Canada?

Mr. Peter Wilkinson: To be honest with you, at the moment there is no Japanese life insurance company in Canada. We're not overly concerned. As long as everyone has to play by the same rules, come on in.

Mr. Ed Holder: It's nice to be number one.

Thank you very much.

The Vice-Chair (Mr. Don Davies): Thank you.

Mr. Easter, for five minutes.

Hon. Wayne Easter: Thank you, Mr. Chair.

Just to start off, Ed, on your first comment, I took that what Richard meant was that the government is all talk and not really many results—

Voices: Oh, oh!

Hon. Wayne Easter: Because when you—

Mr. Ed Holder: A point of order, Chair, a point of order.

The Vice-Chair (Mr. Don Davies): What's your point of order, sir?

Mr. Ed Holder: Thank you very much, Chair, for recognizing me. I want to clarify Mr. Easter's comments, because I know that Mr. Phillips would have wanted to properly express himself—

Voices: Oh, oh!

Mr. Ed Holder: —and I wanted to get that on the record. Thank you.

Hon. Wayne Easter: Even if you are wrong.

The fact of the matter is that you are right, Richard, in that there are only so many negotiators and we are falling behind in the U.S. market. There has been a lot of discussion, but the big market that we're really extremely concerned about in the agriculture sector is the Korean market, and that's where the government has to step up to the plate.

I wanted to comment as well on the Japanese market as it relates to canola. There's no question—they're a premium market. But they're also a very closed market when it comes to value added.

Prince Edward Island sells them a lot of non-GMO canola. They're going to assure themselves that they're getting the quality they ask for and that it is non-GMO. They come to Prince Edward Island once a year and they inspect the fields. If there's a GMO field of anything within close proximity of that non-GMO canola field, that product is not going to get shipped. They are a premium market, but you had better produce premium or you're not going to be in that market, and you had better ship what you said you were going to ship.

What is the difference between canola seed and canola oil on tariffs? Do you know? The door is basically closed on value added. That's the point I'm trying to make. How do we open that?

Mr. Richard Phillips: At the Canola Council of Canada—and I sat on the Canola Council for many years—we meet with the Japanese every summer. Not only do they go to Prince Edward Island, but they come out to the prairies and they look at the crops there as well. We have regular consultations with them.

You can ask, and ask, and ask, and the answer is always no, because they want to protect their domestic crushing and value-added industries. I think the only way we are going to solve this and deal with those tariffs they charge more on processed goods is through the opportunities that we have through formal free trade negotiation. After 20 years of labouring, there has been very little adjustment, and this is probably the only opportunity we will have to deal with that issue.

● (1255)

Hon. Wayne Easter: I guess the other point related to agriculture —and then I have another question that you mentioned as well, Richard—is the railways. It is extremely serious. On average, Canadians are 900 miles from tidewater position. No other country in the world has that kind of transportation barrier to overcome—and we have a monopoly with the railways at the moment.

The government has been asleep at the switch on the service review. They've had pretty near five years now to deal with that review, and they have absolutely failed to do so. I appreciate your words. I hope that at least some backbenchers will start to stand up and argue for rural Canada in terms of the government implementing the recommendations of the service review.

On the general question, looking at it from the other side of the equation, where do you think Japan might have advantages in Canada? I think we have to be aware of where we're going to face some competition that may create problems for us. Do you see anywhere on the other side of the equation where there may be an advantage to Japan that we have to kind of work against?

Anybody...?

Mr. Richard Phillips: Maybe manufacturing first...?

Mr. Jean-Michel Laurin: I can go first, Mr. Easter.

It is pretty clear, with regard to automotive, for both vehicles and parts, they have some defensive interests coming into Canada. They already export vehicles to Canada. They already do some manufacturing in Canada and North America. Eliminating the tariff, potentially, and also getting improved market access to Canada, these are probably their top issues in terms of what they are pursuing in these trade negotiations, and that would have an impact on our own industry.

If you look at some of the other sectors where they do export, eliminating tariffs and providing improved market access for aerospace parts, for construction equipment, which is one of their top exports to Canada as well.... They would strongly benefit from having tariffs eliminated and just getting improved market access.

The Vice-Chair (Mr. Don Davies): Thank you very much.

On behalf of all the committee members, I'd like to thank all of the witnesses for your time and your contributions of expertise. Your testimony has been very helpful to the committee. Thank you very much.

We'll adjourn the meeting.

MAIL POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid Port payé

Lettermail Poste–lettre

1782711
Ottawa

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

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

SPEAKER'S PERMISSION

Additional copies may be obtained from: Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the following address: http://www.parl.gc.ca

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

PERMISSION DU PRÉSIDENT

On peut obtenir des copies supplémentaires en écrivant à : Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : http://www.parl.gc.ca