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Chair

The Honourable Rob Merrifield

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• (1100)

[*English*]

The Chair (Hon. Rob Merrifield (Yellowhead, CPC)): I'd like to call the meeting to order. I want to thank everyone for coming. I also want to thank Mr. Davies for filling in for me on Tuesday. I certainly appreciate that. Some members thought it was going to fall apart. No, not so. Good for you.

We certainly want to apologize to our two witnesses, Mr. Kirke, from the Canadian Apparel Federation, and Andrew Casey, from the Forest Products Association, for being bumped from our last meeting. I guess it was last Thursday. Things happen around this place and we had to be called for voting and weren't able to schedule you in, so we certainly appreciate your being here for this meeting. We are studying a comprehensive partnership agreement between Canada and Japan, and we certainly are looking forward to your testimony.

We'll start with Mr. Casey. The floor is yours, sir. You have 10 minutes.

Mr. Andrew Casey (Vice-President, Public Affairs and International Trade, Forest Products Association of Canada): Thank you, Mr. Chairman.

[*Translation*]

It is always a pleasure to appear before you to share our views.

[*English*]

It is a pleasure to be here today to present on the Canada-Japan trade partnership.

If you looked at our testimony over the past five years or so, you would see that the industry has gone through some fairly significant economic challenges. If you looked at our numbers five years ago, they would have looked significantly more optimistic than they are today. But I would like to remind all members that despite the bad news about the industry over the past five years or so, the industry still employs directly 240,000 Canadians from coast to coast. It's a more than $54-billion-a-year industry. We are the economic lifeblood of over 200 communities from coast to coast. I know that many members around this table are very familiar with that, as a number of you have constituencies in which our industry is a significant economic player. For that reason, many of you are very familiar with the economic challenges the industry has faced over the past five years or so.

I'm not here today to say that everything is looking entirely rosy, but we are certainly seeing some very encouraging signs out there in the marketplace that the industry is going to be rebounding.

We've been before this committee on a number of the other trade bills or trade agreements that either are being negotiated or have been negotiated. You've heard the story: One of the most important parts of this industry's strategy going forward, as we sort of emerge from this economic downturn, is to continue to diversify and expand our markets beyond Canada.

Right now, of the $56 billion worth that we produce, over half is exported outside of Canada. The lion's share, of course, goes to the U.S., as would make some sense, given the geographic proximity and the ease and the relationship. But increasingly we've been able to diversify away from that marketplace and send more of our product in particular to Asia, which is now the second most important market for the industry. It's in that context that Japan presents a very significant opportunity for the industry going forward.

Somewhat different from other Asian marketplaces, Japan has been a significant client of ours for well over 40 years. They're a wood-building culture, so they have a tradition of building with wood. For that reason it's not surprising to see the numbers that we do have in terms of our shipments to Japan. There is about a $12-billion market overall in Japan in terms of what they import from abroad from the forest products sector.

About $1.4 billion worth of our products go to Japan. The bulk of that, around $935 million worth, is in lumber. So we're shipping lumber there.

One of the interesting things about the lumber that we do ship there is that it's a premium grade lumber. It's called J-grade or Japan-grade lumber. To make an agricultural analogy, it's like taking the beef tenderloin and shipping only that. It's the best part of the tree, the straightest part with the fewest knots. They love it, and they pay a premium for it. From that standpoint, it's a very important marketplace.

We also send a fairly significant amount of pulp there. Of the $1.4 billion, the remaining $500 million or so is in the form of pulp.

In terms of other building products, we're not as successful there, and we would like to be more successful. I think that's why this deal presents a very important opportunity.

All of our products, except for the pulp, face a tariff of anywhere between zero and 7.5%. That same tariff is faced by most of our competitors. Our biggest competitors in the lumber market are found in the U.S. and the Scandinavian countries. So a deal of this nature, which will bring us down to zero on those product lines, is extremely important, because it obviously makes us far more competitive vis-à-vis our main competition from other parts of the world. It will also probably make some of our products, like the particle boards, veneers, and plywoods, more competitive against those of the other competitors that are coming from cheaper producers in places like Indonesia, once we get rid of those tariffs.

Obviously the other part of this is that it presents a fairly strategic play in the Trans-Pacific Partnership negotiations that are ongoing. We certainly support the fact that we're trying to get to that table, but in the event that we're not successful, having this as a bilateral, certainly from a strategic standpoint, puts some pressure on those who are trying to prevent us from getting to the TPP table.

On a final note, one of the reasons we are so successful in Japan is that we have had ongoing government support. Certainly the government has been very helpful in growing the marketplace and supporting not only rebuilding following a disaster like the tsunami, but also rebuilding their economy, as well as helping us share expertise in wood building. We're very grateful for the government support on that front.

On all that, this represents a very important opportunity for the industry. We look forward to growing our market share there as a result of this deal.

I look forward to answering any questions that you may have going forward.

● (1105)

[*Translation*]

Thank you very much.

[*English*]

The Chair: Thank you very much. I'm sure there will be a question or two.

But before that we have, from the Canadian Apparel Federation, Bob Kirke.

The floor is yours, sir.

Mr. Bob Kirke (Executive Director, Canadian Apparel Federation): Mr. Chair, honourable members, I'd like to thank you for this opportunity to speak to you regarding a Canada-Japan bilateral trade agreement.

My name is Bob Kirke. I'm the executive director of the Canadian Apparel Federation. Our association is made up of several hundred firms throughout the apparel industry. Members of our association import and export apparel throughout the world. They make it in Canada and abroad. We also count as our members industry suppliers and vertical retailers.

I recently had the pleasure to appear before the committee on Bill C-23. I'm happy you were able to report to the House regarding the Canada-Jordan Free Trade Agreement, and I'm happy to speak to you today about a very different agreement, with a much different trading partner.

Before I address the merits of free trade with Japan, perhaps I could provide a little background on the specific rules of origin that apply to apparel in our bilateral trade agreements. I'd like to outline how we view these rules and mention a few of our industry's international trade priorities.

Before the Canada-U.S. Free Trade Agreement, Canadian exports of apparel were minimal. After the FTA we grew as an industry almost exclusively on the basis of exports to the United States. Canadian apparel manufacturers prospered under the Canada-U.S. FTA and NAFTA, and we became far more market oriented within the North American marketplace.

Once import quotas on imports from lower-cost countries were fully removed at the end of 2004, many companies reoriented their production to take advantage of trade liberalization, both for the domestic market and the U.S. In basic terms that meant moving production to other regions of the world, particularly Asia.

We have had and we continue to have good success under NAFTA, but I want to underline for you that the success has come despite the product specific rules of origin, and not because of them. For that reason I would like to mention a few things about the standard apparel rule of origin that Canada has incorporated into many of its bilateral agreements—pretty much everything since NAFTA.

Under the Canada-U.S. FTA, we had a specific rule of origin established for Canadian manufactured garments. To qualify for free trade they had to be manufactured in Canada from fabric produced in ether Canada or the United States. This is what's called a fabric forward rule of origin.

NAFTA, which came into force 18 years ago now, imposed a significantly more stringent rule. Under NAFTA, for apparel to qualify for free trade, the yarn had to be produced in North America, the fabric had to be manufactured within North America, and the garment had to be cut and sown in one of the NAFTA countries. This is a yarn-forward rule of origin.

The challenge created by the rule of origin is that it establishes the unlikely scenario where the origin of a garment, similar to what I'm wearing now, and its tariff treatment are determined by the origin of the yarns woven into the fabrics, which are then designed and cut and sown and made into a garment. Since NAFTA, virtually every free trade agreement Canada has negotiated has been based on these rules of origin.

For the record, the Canadian apparel industry never supported this rule of origin, for apparel in NAFTA or any other agreement. These rules are cumbersome and serve as a barrier to trade. I would be happy to give the committee numerous examples of how this complicates trade.

With respect to Japan, our message to the committee and the government regarding any agreement with Japan is very simple: we support this initiative. The Japanese market is challenging, but it has great potential for all our industry. But free trade with Japan should be undertaken with the most straightforward rule of origin for our products.

The Canadian government has recently implemented agreements with less burdensome rules, for example, the FTA between Canada and the European Free Trade Association, EFTA, which was implemented in 2009. Under the Canada-EFTA accord, there's a simple rule of origin for apparel. To qualify for free trade, apparel need only be cut and sown in the territory of one of the parties to qualify for free trade. There's no restriction on the raw material origin.

These are precisely the type of rules our industry needs when we are trading with another developed country such as Japan. For both Canada and Japan, their mainly domestic production of apparel is focused on niche markets, the higher value-added goods. There is potential to grow this trade between the two countries, but only if we adopt simple rules of origin.

● (1110)

We would also add that we urge the government to proceed on a bilateral basis with Japan, and not wait for the Trans-Pacific Partnership deal to be negotiated or for us to be able to join. Those are both up in the air, I would suspect, if for no other reason than that the American government, we believe, is looking essentially for NAFTA rules of origin for apparel under the Trans-Pacific Partnership.

This brings us to a few other priorities in international trade, which echo some of our comments about Japan and will also give you a little more background. First, we encourage the government to establish what we call commercially viable bilateral trade agreements. We need to ensure that agreements offer reasonable opportunities for companies both in Canada and our trading partners. Extraordinarily complex rules of origin and other regulations defeat this purpose.

Our second priority is that we should be improving existing agreements. We should be looking to review and improve existing FTAs and other trade arrangements, and in particular to move from a yarn-forward rule of origin, which we have negotiated for the last 18 years, to a fabric forward rule wherever possible.

Our third point is very basic: don't forget the United States. I would never come before this committee without saying that. Even now, our exports to Japan per year are basically equivalent to about three days of exports to the United States. So please remember that the regulatory barriers between Canada and the U.S. remain the most important issue.

I guess the last point I would say is that we are committed, and we hope the government remains committed, to a rules-based trading system. As I mentioned, the Canadian apparel industry shifted a lot of its production from domestic manufacturing to other producing countries. We make it here; we make it in Asia; we buy foreign fabric; we bring it here. It's a very complicated mix. The best expression of this was formulated by Export Development Canada, which calls this process “integrative trade”. The World Trade Organization calls this "made in the world". It's very indicative of our industry.

In reality, Canadian firms design and manage the production of literally billions of dollars in apparel, which is assembled in other countries, such as China, for sale in third markets. For this to operate we need strong multilateral trade rules, and it is in Canada's interest to support such a trading system.

Those are my remarks. I'd be happy to answer any questions the committee has.

● (1115)

The Chair: Certainly, thank you very much for those remarks.

We'll start with Mr. Davies. The floor is yours for seven minutes, please.

Mr. Don Davies (Vancouver Kingsway, NDP): Thank you, Mr. Chair.

Thank you, Mr. Casey, and Mr. Kirke, for being with us today.

Maybe, Mr. Kirke, I'll start with you and follow up on your recent comment. You said you hope that as a policy we proceed with a rules-based trading system. I'm wondering if you could explain a bit more what you mean by that. Is there anything specific about the way our negotiations are being conducted that would cause you to have concern in that regard?

Mr. Bob Kirke: We work very closely with Export Development Canada. And again, I would never come before this committee without praising EDC and saying how important it is to the exporting community. With it we did a survey of opportunities in BRIC countries, especially South America. The basic problem is that Brazil and Argentina are erecting barriers to trade at every turn. Their primary concern is China, but in essence they're putting in labelling requirements and product safety requirements that are entirely spurious.

The Argentinians have recently lost GSP, general system of preferences, access into the United States because they're marauders. They are not acting according to normal trade. The WTO has sanctioned them recently as well.

That's the sort of thing we're looking for. We recognize that the opportunities are in bilateral trading agreements now. I have no criticism of that whatsoever; it is about taking advantage of the opportunities that present themselves. But you shouldn't underestimate the impact this has. When we surveyed our companies, we found that the major impediment to growing in BRIC countries was new barriers to trade being erected by those countries. So in point of fact, if you're going to develop a product here, the fact of the matter is that you will be producing a lot of it in China, and you can't really access Brazil.

Those are my remarks.

Mr. Don Davies: Thank you.

In terms of forestry exports, Mr. Casey, the general assertion is that forestry exports are expected to rise as a result of an EPA with Japan. What are the primary forest products we're currently exporting to Japan? I'm particularly interested in the percentage that might be raw logs or unprocessed lumber versus finished or value-added products.

Mr. Andrew Casey: We ship $1.4 billion worth of product to Japan every year, and $935 million of that is wood products. There may be some small amounts of raw stuff going there, but certainly none of our members, and I'm not aware of any... It's primarily a lumber market, so even of that $935 million, there are some small parts of it that are panels, and plywoods and veneers, but the bulk of that is two-by-fours, a traditional kind of lumber play.

It's a growing market albeit I don't think it's going to grow much more. They've obviously had an economic downturn, so we're not expecting the market to increase that significantly over the next little while. But I think this type of an agreement allows us to get a greater piece of the market share than we already have. So on the lumber side, we're about one-third of their market. We could get a bit more of that.

Certainly, on the structural stuff, the panels and the plywoods, there's a lot of market out there for us to grab. I think once you get rid of the tariffs that are in place on our products, that will really open up the marketplace. That's where we see the growth as opposed to a growing market.

● (1120)

Mr. Don Davies: Just parenthetically, I'm from British Columbia and I hear that our raw log exports have gone up over the last 10 or 15 years. Where are our raw logs going? It sounds like they're not going to Japan primarily. Where are they going?

Mr. Andrew Casey: I don't know. The raw log debate has got a number of nuances to it. It's a provincial policy, so I can't really speak to it.

Obviously, what's happening is that some of the provinces are deciding they'd rather keep a mill running and people hauling logs, and if that means they have to send some of those trees over in their raw state, that's what they're going to do.

That was a provincial decision made at a time when the economy and the industry were at their lowest. It was designed to address some of the challenges. Whether or not that changes going forward, I don't know. But again, it is a provincial policy. We don't have a play there.

Mr. Don Davies: Fair enough.

On May 1, the committee was told that a Canada-Japan joint study report concluded that an agreement between both countries would deliver trade opportunities both in food and forestry products. I'm wondering if you've had a chance to look at the methodology used in that assumption. Have you?

Mr. Andrew Casey: I have not, no, but I would concur with the conclusion.

Mr. Don Davies: Has your organization done a study of the economic benefits of an EPA with Japan, Mr. Casey?

Mr. Andrew Casey: No. We have not done a study. When we look at the marketplace, we've been there for over 40 years. It's a very important marketplace to us. For many years, it's been the second most important marketplace for us, aside from the U.S. market. The softwood lumber dispute shows how important it is for us to grow our markets in other places. We're already there. We know they like to build with wood. They like to build with premium wood, as I said, so it is an important market.

There is a tariff on our products. We know that if that tariff comes down, not only does it make us more competitive vis-à-vis our competition but we also estimate that it would result in about a $20 million savings on just the products we're sending there right now. Obviously, that will increase—

Mr. Don Davies: So you have made some financial estimates, but just not a full-bore study.

Mr. Andrew Casey: That's right. Yes.

Mr. Don Davies: What about you, Mr. Kirke. Has your organization done a study you could share with the committee about the benefits of an EPA with Japan?

Mr. Bob Kirke: No, we haven't. We have had some missions previously to Japan.

Just to echo the comment before, the duties are up to 13%, so you're talking about millions of dollars coming off in trade. But no, we haven't done a study.

I think the key is that there are a lot of fairly high-end goods that are made in Canada still and will continue to be. They can fit anywhere in the world. You can sell a Canada Goose parka, God help me, in Australia.

Mr. Don Davies: Say it ain't so.

Mr. Bob Kirke: Tasmania is the launching point for our Antarctic research.

We're going away from a commodity industry where you can say *x* amount will go. This just opens up another decent market by allowing us good access.

Mr. Don Davies: Thank you.

The Chair: Thank you very much.

Mr. Cannan.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you very much, Mr. Chair, and thank you to our witnesses. It's always great to have you here, consulting with our stakeholders across the country, as we continue to open new markets for our Canadian businesses.

As you know, this has $3.8 billion in potential economic opportunities, some multi-billion dollar bilateral trade opportunities, for both countries. Japan is our fifth largest trading partner and we want to continue to expand and grow that.

Coming from British Columbia, like Mr. Davies, I know the forest industry is a big economic generator. COFI, the Council of Forest Industries, had a conference in my riding last month and the provincial Minister of Forests, Steve Thomson, spoke there. You're correct about the raw log policy being a provincial one; it is. Another big economic generator is the wine industry, and blended wines are another component of keeping wineries economically viable. It's the same thing with raw logs. It's part of the economic mix, so I think it's important to keep that in the context of the jobs that it maintains and the economic bottom line.

Mr. Casey, I agree with the rules-based transparent trade relationship that we want to establish and continue to grow. If we're able to remove those regulations, what kind of value-added opportunities do you see for the forest sector?

● (1125)

Mr. Andrew Casey: If I take your question and move back toward that raw log, how can we move up the value chain in some respects?

I think the one challenge with Japan is that it is a mature marketplace in the sense that they know how to build with wood, they know they're using the best kinds of wood we have. Beyond the premium grade, J-grade lumber, that we're sending there and some of the panels, if we can get more of the panels going there, the structural types of lumbers, the Parallams and those types of engineered woods, I think it would be hugely helpful.

That part of the industry is growing considerably, and certainly in British Columbia it's a big play. As they're already building with wood, as they build larger structures with wood, those types of materials become more important.

The other part of the question, even though you didn't ask it directly, if you might allow me to answer it, is the regional aspect to this. You're correct in pointing out that this represents a very important opportunity for B.C. producers. There is no doubt about it. This is probably where the bulk of that product is going to come from: British Columbia.

I think the important part of that, though, is that this is a global pie, and when production leaves to go there, there is only so much of it. So if B.C. starts to ship a greater percentage of its overall production to Japan, that's going to open up market space elsewhere. While it does directly benefit the B.C. producers, the east coast producers are going to benefit because the B.C. guys are going to leave the U.S. marketplace or the European marketplace, and that will allow the east coast guys to move in.

While it does have that direct benefit, there is a broader reach to this deal as well.

Mr. Ron Cannan: Expanding on that—and I appreciate the fact that Mr. Hiebert is from British Columbia as well—our government is focused on creating jobs and growing the economy and long-term prosperity, not just in British Columbia. Maybe you can expand on how this is going to benefit Ontario, Quebec, and other sectors of our country, creating jobs, well-paying jobs as well, and helping families.

Mr. Andrew Casey: Absolutely. As I said in my opening remarks, we're an export based industry, and so we're shipping well over $25 billion of our product outside the country every year. The big export producers are right across the country, from B.C. right out to the east coast.

As I said, this is a global marketplace and there's only so much supply out there, and certainly we're seeing a constriction of supply as a result of things like the pine beetle in British Columbia and Alberta.

When supply does shift and go to different marketplaces when new markets open up, that opens up other parts of the country to move into those vacancies and fill the voids. Anything that moves from British Columbia to Japan, China, and India, because those markets are easier for the B.C. producers to get to, opens up opportunity for the east coast as well, because they'll just move in and fill the vacuum.

Mr. Ron Cannan: Our thoughts and prayers are still with the Japanese families after the devastating earthquake a little over a year ago. Debris is showing up on the west coast of British Columbia today. What role is the forest sector playing to help rebuild the Japanese economy and help the families in Japan?

I know you've been very philanthropic, and maybe you can share with the committee on that.

Mr. Andrew Casey: Absolutely.

A number of the companies have helped by sending lumber, and there's certainly been a partnership with the Canadian government as well. It has helped significantly with some money to help them rebuild.

A lot of it is relationship building. We've had a relationship, as I've said, for the more than 40 years we've been in the country, and so there are some significant commercial relationships and partnerships there already. The industry has been able to make good on those friendships in a time of crisis for them, and hopefully that does help them at this time.

Mr. Ron Cannan: Relationships are a big component of doing business with Asia, and I refer to your opening comments about bilateral trade and its importance to the Trans-Pacific Partnership.

● (1130)

Mr. Andrew Casey: I think the Trans-Pacific Partnership is a very important initiative, and obviously the Canadian government has signalled it would like to be at that table, as has the Japanese government. There is some pushback, obviously, and some are trying to prevent us from being at the table. I think strategically this presents a very important initiative in terms of putting some pressure on those who are trying to keep us from the table, by our saying that if they don't let us come to the table, we'll just do it bilaterally.

The Japanese market, as important as it is for our industry, is extremely important for the U.S. industry as well, and so that puts a lot of pressure on the U.S. to understand that having us at the table might be to their benefit. If we're at the TPP table, the Japanese market is obviously part of that, as well as some of the other key marketplaces in Vietnam and other Asian countries. Certainly it gives us a leg up on some of the competition we're facing now from Australia and New Zealand.

Mr. Ron Cannan: May I have just a quick response from Mr. Kirke? Would you share similar sentiments, from your perspective?

Mr. Bob Kirke: We have no opposition to being involved in TPP. Our only problem is that U.S. policy is still driven by, as the economists once called it, the world's oldest infant industry, that being the textile industry. Their rules are so absurd in this century that there's no basis for trade.

We support going ahead with TPP. We support going ahead with Japan, because within a bilateral deal with Japan, you can set rules that actually make sense. And I think the Japanese government would support—

Mr. Ron Cannan: Thank you very much.

The Chair: Thank you very much.

For a minute there, I thought I was going to have to call you out of order on the oldest profession.

Voices: Oh, oh!

The Chair: Go ahead.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair, and thank you, folks, for your presentations.

First, to the forestry industry, I think you said that our major competitors in the forestry industry in Japan were the United States and the Scandinavian countries. Do they face the same or similar tariffs as we do? I know where the U.S. is at in terms of negotiations with Japan. What about the Scandinavian countries?

Mr. Andrew Casey: Yes, they do. The MFN, or most favoured nations, are all in that zero to 7.5% range. It's pretty much equal for all of us across the board. What this will do is drop it down to zero for us and obviously put us at a competitive advantage compared to those who still have their tariffs in place.

Hon. Wayne Easter: In terms of some of the other countries, do they do anything else within their industry to make their industries more competitive in the Japanese and other markets?

I know the agriculture industry best. It's really interesting. The United States claims to be pure, but they find many, many ways to subsidize, whether it's through their transportation system or other means.

What's happening in the forestry area?

Mr. Andrew Casey: I'm very wary of talking about subsidies in the forest products industry when the U.S. is involved. I can't speak to that. I don't know what the other industries are doing.

I certainly know what our industry is doing to make itself more competitive in that marketplace. We're building on the long history of already being there. There's clearly an appetite for our wood. They like the J-grade lumber. They're buying a lot of it. It constitutes about one-third of what they're bringing in, in total. They certainly like other key products, such as cedar, and the more visible types of woods they're bringing in.

I think, for us, it's just continuing to grow the marketplace, grow the tradition of building with our wood, and proving that our quality is superior to that other countries that might be sending their product there.

Hon. Wayne Easter: You may or may not be able to answer this question.

In terms of a comparison to the U.S. market, one thing we find, certainly in all kinds of discussions, is that in some of their markets, we're actually falling down. In our secure, long-term markets, we're going backwards while new deals are negotiated.

I'm wondering where the forestry industry is at. Are we expanding substantially in the United States market? Are we back to where we once were? What is happening there at the moment?

● (1135)

Mr. Andrew Casey: Two things are happening in the U.S. market. They've stopped building houses. That's the biggest problem for us. The problem when they stop building houses hits you on the wood side, because that's what they build the houses out of. But that's also usually the first indicator of a downturn in their economy more broadly. When that happens, what you tend to see is that they advertise less, and that impacts our paper side. A newspaper is essentially always the same size, from a news standpoint. It only grows in size when people start to advertise more. So that part of the market gets hit. You get a double whack from that.

We know that the U.S. market is going to come back. We've seen a slight uptick in their building. They have significant inventory to get rid of, but they will start to build homes again. Will they reach the $1.5 million levels again? Probably not, but even if they get up to $1 million or $1.1 million, that will be massively helpful. It would represent about a $400,000 or $500,000 increase over what we're at now.

That said, I think one of the important strategies for the industry is to diversify away from its dependence on the U.S. market. If you become very dependent on one particular marketplace, as we have over our history—we've traditionally sent about 70% of our products there—we're very vulnerable to whatever happens in their economy. So we're very encouraged by the aggressive trade agenda being pursued right now, because it's opening up all sorts of new markets.

We're also re-establishing ourselves in existing markets, such as Japan, where we have been for a long time. Equally, when you look at India, China, and all those very important marketplaces where we hope to grow, we can get ourselves away from our dependence on the U.S. marketplace and its vagaries.

Hon. Wayne Easter: Okay.

Turning to the garment industry, you talked a fair bit about the original rules of origin that basically still exist. What's the reason behind that?

Mr. Bob Kirke: NAFTA was created when there were high or restrictive import quotas against countries like India and China. There was a goal, especially voiced by the U.S. textile industry, that they wanted to have the entire garment from North American raw materials.

The fact of the matter is that with liberalized trade, you recognize that there are certain places in the world that can product textiles and apparel very well, and they are not all in North America, despite a number of incentives here, which you've mentioned. I think the most heavily subsidized product in the world is U.S. cotton.

Despite all of that, North American industry is not competitive in all categories of textiles and apparel. Essentially what you're doing is you're forcing the use of U.S. yarn. To trade freely between Canada and the U.S., you have to use U.S. yarn. Well, there's no yarn production left in Canada, and the stuff in the United States is highly commoditized. So it's just a few different items, and nothing fancy or appealing to the consumer.

As long as you want to all dress in burlap, you're doing well. That's really the result of that trade policy.

Voices: Oh, oh!

Hon. Wayne Easter: That suited the chair.

Mr. Bob Kirke: The reason I want to mention this is that we've used that as the template for our trade agreements with every other country we've signed an FTA with. In the first instance, we went to Costa Rica and said, “NAFTA rules: done”. Colombia, Peru.... We don't make fabric here. They don't make fabric. Yet we're requiring this onerous rule of origin.

Hon. Wayne Easter: Are there ongoing discussions with the government, from their industry perspective, to move away from that? And are they moving in the right direction?

Mr. Bob Kirke: Yes. Look, with a country like Japan, you go to single transformation—cut and sew the garment, and then trade it. With some of the other developing countries, you might want to do a fabric-forward, because they will have a fabric capacity. India has tons of fabric capacity. They have no problem meeting that rule. That's what we'll say when we come before you on that agreement. But for god's sake, don't do NAFTA.

As an illustration, NAFTA has been in 18 years. We went up and down. We were exporting $3 billion of apparel at the height, and it's closer to $1 billion now. When U.S. customs comes to verify a NAFTA certificate of origin today, they disqualify 90% of them in textiles and apparel for a very simple reason. No one figures out where the yarn is from. They don't have a paper trail or anything like that.

The U.S. customs can walk in and ask you, where you did you buy the fabric? Oh, I bought it from him. Okay, so where did he get it from? From this mill: go there. So they go and ask the mill, where is the yarn from? I got it from here. Then can you show us the invoice for that yarn? And this could be a small producer in Toronto who's been asked to meet that kind of scrutiny regarding a piece of denim.

It's unworkable. It's unworkable in the U.S., it's unworkable in trade agreements, and it's unworkable, frankly, within the LDC tariff, which is another plank of our trade policy.

So without belabouring it: don't do it.

● (1140)

The Chair: Okay.

Thank you very much for that.

And thank you for the questions. You were just about out of order again, attacking my burlap.

Go ahead, Mr. Keddy. The floor is yours.

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

Welcome back to our witnesses. Both of you have appeared before this committee a number of times, and there's always good discussion.

You had some very informative points, Mr. Kirke, on the apparel business. When we look at agreements, sometimes the obvious is missed. I'm always a little bit shocked, how that happens, but obviously it does.

I want to start off with a couple of questions on forestry. It's an industry that's very much in my background. I'm very familiar with it in the east coast of Canada.

Your point's well taken on having one customer. I've mentioned it many times at this committee. Eastern Canadian mills used to depend very much on Europe as a marketplace. We got shut out of Europe for phytosanitary reasons, so $900-million worth of wood that came out of Nova Scotia alone to Europe suddenly turned south. By far the Americans are taking that portion, that billion dollars' worth of wood products coming out of Nova Scotia, and Europe is getting a few hundred thousand. We have an advantageous position, of course, because we don't fall under countervail. We do fall under anti-dumping, when it happens, but it's helpful to us.

I would take a moment to congratulate you and your industry on helping out after the tsunami. Good for you. That's what neighbours do for neighbours. That's nice to see.

The fact that we do have a mature marketplace in Japan, the fact that we do have a culture that's traditionally built with wood, as we do in North America, particularly in Canada, should help us to move this forward. I would ask, however, what role modern forestry practices, certification in particular, has played in bringing that product into Japan.

Mr. Andrew Casey: Thank you for that. That was a point I neglected to mention in one of the earlier questions, I think from Mr. Easter, on how we improve our competitiveness in that marketplace and what we're doing.

The one thing I did leave out was certainly our environmental performance. Japan represents a market that values environmental performance. In fact it's one of the criteria, one of the table stakes: you can't get into the marketplace unless you can show that your environmental performance on the ground, your emissions and other things, are up to speed and what they would hope to see.

In that regard, our industry's record of environmental performance is second to none. We have the most certified forests in the world. We're a leader in that regard. We've gotten our emissions down considerably. Certainly our carbon dioxide emissions are down by 60% to 67% since 1992.

There are other elements to it. The Canadian Boreal Forest Agreement is another symbol or sign for that marketplace that our environmental performance is the best in the world. All of that very much helps us from a competitive standpoint in that marketplace, and we're encouraged by it.

Just to your earlier comment, hopefully the Canada-European deal helps us regain some of that market share. I think we talked about that the last time I appeared before this committee. That will be an important deal where we get rid of the tariffs and the quota on the plywood aspect, and then hopefully that'll open up market again for the east coast producers.

Mr. Gerald Keddy: The other point on the Canada-EU, and I think it's worth mentioning, is that there's really no reason why we can't get into raw dimensional lumber going back into the European Union, as long as there's no bark or wane on that wood. It's just a matter of inspection. We used to have it, so there's no reason we shouldn't be able to get back to it.

Mr. Kirke, your comments, I think, were very apt and much appreciated. I realize that the rules of origin must be a nightmare in the fabric industry; I mean, I just can't imagine.

Has the advent of synthetics imposed anything on that?

● (1145)

Mr. Bob Kirke: No.

Mr. Gerald Keddy: Okay: simple question, simple answer.

Mr. Bob Kirke: We have an 18-year agreement under NAFTA, and no one wants to change it. The world has passed NAFTA by in terms of a trade arrangement.

A small provision allows you to access a certain quota of fabric that isn't from the trading region; it's called a TPL, tariff preference level. So you can use some imported fabrics in certain quantities to construct a garment here and ship it to the States. There's one for wool fabrics and one for cotton and man-made fibre.

Along comes hemp, which doesn't fall into either. If anyone exerted even the slightest amount of common sense they'd say that we should amend this, that we should change it so that we can qualify. No. It's a tiny but inflexible thing. It doesn't matter what new fibres come along, because it's as if they're put into a basket or they're not. I'm not sure anyone wants to open up NAFTA, but the reality is that if some common sense prevailed we could sit down with the Americans tomorrow and change provisions in NAFTA. No one would oppose that, but it doesn't happen. Again, when you set the bar so high, as they did in creating this rule, it's impossible to meet.

Mr. Gerald Keddy: It really wouldn't pertain to our ability to sign a bilateral agreement with Japan, but in the Trans-Pacific Partnership would you expect the Americans will be looking for the same type of NAFTA-based rules on fibre?

Mr. Bob Kirke: There's quite a debate in the States because the U.S. textile industry is dead set against it. Vietnam is on their brain, if you will; they just go crazy about Vietnam. So, absolutely, I don't see their having a lot of flexibility in the negotiations. They are captive to that industry.

The Chair: Thank you very much.

We're going to have two more questioners and will split the time. We'll try to get our next panel a little ahead of 12 because we have some committee business near the end of the next hour's session.

Mr. Davies, you have a couple questions.

Mr. Don Davies: We will have one each.

The Chair: Okay, that's fine, and then we'll go to Mr. Hiebert.

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

I think the current policy on hemp is that you're okay growing five plants of hemp without, as it were, getting into too much trouble. I'm teasing: It's under six.

Mr. Kirke, when we think about textiles and the production of clothing and free trade allowing garments made all over the world to come into our country, it is a fact that many clothes and products are made in countries where people are being paid cents an hour as opposed to dollars an hour, and in appalling conditions, with child labour and those kinds of things.

Besides the impact that has on our domestic companies' ability to compete with that—I don't know how they compete in making products when they have to pay workers' compensation and EI premiums and minimum wages, etc.—I'd like you to comment on how that may factor into this. Also, does your organization have any ethical concerns about the free flow of goods into our country, in this case garments, made in what everybody would agree are appalling conditions. That's not Japan, of course.

Mr. Bob Kirke: Understood.

You play the cards you're dealt sometimes. We didn't ask in 2003 for the Canadian government to eliminate duties on least developed countries. In fact we came to this committee and to those in the Senate and said, don't do that. But they did. You have to think about what was prevailing in 2003: We had high and quite restrictive import quotas on many countries, and we had at that time an 18% duty on those garments.

So it was done pretty much overnight. I'm the guy who got the call from a DG in Industry who literally said that everything was going ahead on December 22, 2002, and that effective nine days later the duties were going to zero and there would be no quotas.

So my first comment is that government policy directs the industry. All of our major retail customers in Canada were following just as closely as we were, and so they would say to their suppliers, “Well, it's done. Go to Bangladesh. We have a factory for you. Go do the product there”.

That's certainly not what I would consider reasonable industrial policy, but that's exactly what happened in 2003. And yes, we are well aware that there are different sets of circumstances there, and again, the companies that remain in Canada don't directly compete with that product. That's gone forever. They produce better goods at higher prices.

I would also say that those companies are aware of what's going on there and they are trying to deal with that. Bangladesh has recently had some very serious problems and we're working with the Retail Council of Canada, the National Retail Federation in the States, and various industry associations in Europe to try to bring more standards to that.

● (1150)

The Chair: Very good. Thank you very much.

Actually, the time has gone over here. I'll allow a very quick question and a very quick answer.

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

I am from British Columbia where I've had family work in the lumber industry. So I'm very familiar with the types of job losses in the last number of years. In fact, the mills that my cousin and my brother worked in closed down. So I'm very concerned.

What would you like to see in a trade agreement that would enhance our value-added industry, and foster and enhance the value-added products that we export to Japan?

Mr. Andrew Casey: I think the elimination of the tariffs is essential. That would make all of the products that we're sending there more competitive. Those are the wood panels, the engineered lumbers, and those types of things. So any movement on those tariffs—and this deal will result in a zero essentially—is really all we can ask for in terms of the added value, moving up the value-chain concept.

The Chair: Thank you very much.

Mr. Hiebert, go ahead very quickly.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): I'm one of the four British Columbia MPs. It's good to have good representation on this committee to serve our constituents there. Since the others have asked great questions about forestry, I'm going to ask one about the apparel industry.

Mr. Kirke, you said that we are hindered or constrained by NAFTA and the rules of origin that we have in that agreement. I'm wondering whether Japan has similar rules of origin with any free trade agreements they have and whether they would be hindered by those as they come to the table on this issue.

Mr. Bob Kirke: In general, no, I think anything they have signed recently might involve single transformations, so cut and sew. I would also say that at one stage Japan was subject to the quota system. They were a low-cost provider in the sixties and so on. They have been very open and committed to open trade, because they were subject to the other side. So I would say in general terms they're very straightforward in what they sign, and I don't think they have any sort of similar problems in their past, if you will.

Mr. Russ Hiebert: I have one last question for both of you. We haven't talked much about non-tariff barriers. Are they of concern? Do we need to incorporate them into this agreement?

Mr. Andrew Casey: There are none, really. There are some minor ones, but we're able to negotiate. The pine beetle was a bit of an issue with the lumber that was going there with the blue stain. That was an issue but we've managed to get rid of that.

I would just quickly add that you may have seen all the best questions asked about our industry, but one of the interesting things about our industry is that we may soon be members of Mr. Kirke's organization. We're producing something called dissolving pulp, which is part of where the industry is going. Dissolving pulp is being turned into fabric—rayon, essentially—and we're becoming big competitors in that area.

So once we move beyond all the traditional lumbers and pulps and stuff, that's where we're going, in the bio-economy. So look for other questions in other parts of where we're going.

● (1155)

Mr. Russ Hiebert: There are also biofuels.

Mr. Andrew Casey: Biofuels, absolutely.

The Chair: Make it a very quick answer, please.

Mr. Bob Kirke: In general, they're not non-tariff barriers, but Japanese society and culture. The one thing I would say is that it's not that there is a specific barrier we need to overcome. And not just for our industry but for many industries, if you're going to make a serious effort to go into Japan, as these guys did, and work there for 40 years, you need to understand that it should be part of the global commerce strategy and you must have a long-term commitment to that market. Then I think a lot of industries can do well.

The Chair: I want to thank you very much for coming in, Mr. Kirke, and Mr. Casey. We appreciate your testimony.

We'll now suspend and bring the next set of panellists very quickly to the table.

Thank you.

● (1155)

(Pause)

● (1155)

The Chair: I'd like to call the meeting back to order.

Thank you, Kathleen Sullivan, for being here from the Canadian Agri-Food Trade Alliance.

We also have Mr. David Worts, from the Japanese Automobile Manufacturers Association of Canada. Thank you for coming.

We will turn the floor over to you, Mr. Worts, the executive director. The floor is yours, sir, and we look forward to your testimony.

Mr. David Worts (Executive Director, Japan Automobile Manufacturers Association of Canada): Thank you very much, Mr. Chairman.

Good afternoon. Thank you for the opportunity to speak to you in support of this important initiative to broaden and deepen our bilateral relationship.

As mentioned, I'm the executive director of the Japan Automobile Manufacturers Association of Canada, or JAMA Canada. We have eight members comprised of the Canadian subsidiaries of Japanese automakers, including Hino Trucks, Honda, Mazda, Mitsubishi, Nissan, Subaru, Suzuki, and Toyota.

Let me say at the outset that we are firmly supporting a comprehensive EPA between our two countries—just as we have supported trade liberalization over the past 28 years—for the economic benefits, jobs, and new opportunities for both Canadian and Japanese businesses.

The history of our organization is a history of liberalized trade. Let me give you a quick snapshot of the impact that trade liberalization has had on our sector in Canada and, in the process, suggest how other sectors could also benefit from the opportunities arising with freer trade.

While JAMA Canada was established in 1984 to promote greater understanding on trade and economic issues, Japanese automakers first came to Canada in the 1960s. Back then, the markets in North America and Japan were very different, and some early business initiatives were not always successful.

It took time and effort to understand the Canadian market, the Canadian way of doing business, and particularly the needs and wants of the Canadian consumer. Our members have spent many years on this and have made the necessary investment to understand the market, investing in infrastructure and building dealerships, investing in research, and building assembly plants to respond to the needs of the market. Our members understand that this is what it takes to be successful in Canada and in Japan—or in any other market, for that matter.

The first oil crisis of 1973 opened a new door as consumers in Canada saw small, fuel-efficient Japanese cars in a new and favourable light. After the second oil crisis in the late 1970s, Japanese automakers reached a critical level of sales to support a solid business case for local production in North America, providing the opportunity to be closer to their customers.

The case for Canada may not have been as easy due to its relatively small market, but the FTA in 1987 and the NAFTA in 1994 were critical in assuring access to the much larger U.S. market, which allowed the development of a deeper level of integration within North America. Today, only Japanese automakers have joined their U.S. competitors to make light-duty vehicles in Canada; moreover, the only medium-duty trucks made in Canada currently are Japanese.

Not only did investment to produce the most popular vehicles locally create thousands of jobs at assembly plants—and in fact, over the first quarter of 2012, plants in Canada built over 247,000 vehicles, almost 40% of total Canadian production—but over time those assembly plants generated even more jobs and new business opportunities in the supply base. The steady growth of production in Canada has also opened up new opportunities for Canadian suppliers to join global supply networks.

Like the Canadian auto industry overall, the Japanese auto industry in Canada punches above its weight. Every year since 1993 Canada has been a net exporter of Japanese brand vehicles, which contributes significantly to Canada's trade balance. Last year we exported over three times as many vehicles as were imported from Japan.

Without liberalized trade we would not have been able to build over 11 million vehicles in Canada since the mid-1980s. While many people are aware that Japanese automakers are building vehicles in Canada—particularly if you live in Alliston, Cambridge, or Woodstock—they may not be aware that over 50 Japanese parts-related plants have been established—and not just to supply Japanese OEMs, and not just in Canada.

Employment at our Canadian vehicle plants is close to 11,000 team members and associates, while employment among the 57 parts and related suppliers is in excess of 15,000 currently. While many of these parts plants are clustered in Ontario, there are some large Japanese parts operations in Quebec and British Columbia.

Local production in North America also meant that the need for imports would be reduced and reliance on local suppliers would be increased, particularly with the assured access provided by the FTA and NAFTA. Currently, two out of three vehicles that our members sell in Canada are built in North America. Moreover, for two members with extensive manufacturing in Canada, between 50% and 75% of their sales are Canadian-built vehicles.

Among other things, we believe that our presence in Canada has made the industry more competitive, has opened up opportunities to join global supply chains, and has introduced new, advanced technologies for safer, more fuel-efficient, and lower-emitting vehicles.

● (1200)

An EPA would add further impetus to opening up new business, building on more than two decades of industrial cooperation and investment in Canada that has generated technology transfer and Canadian auto parts investment in Japan from leading suppliers such as Linamar, Magna International, ABC Group, and the Woodbridge Group.

Altogether the Japanese auto industry supports over 67,000 Canadian employees in importing, exporting, manufacturing, distribution, sales, and service. The importance of the extensive dealer network among all our members throughout Canada should also be recognized as they are the first-line contact with customers. With over 1,250 dealerships across Canada, they employ over 39,000 Canadians in the sales and service of Japanese brand vehicles.

Despite recent global recession and last year’s earthquake and tsunami in Japan and floods in Thailand, which meant production and sales were curtailed by shortages and supply chain issues, which also hit us in Canada, there were no layoffs of full-time staff at any Japanese vehicle plant in Canada or the US. In fact, rather than being laid off, employees were redeployed for training and process improvements. As well, many employees went into the community and worked with local organizations, offering their capabilities and enthusiasm to community groups and agencies. Highly skilled and well educated dedicated employees are a critical part of maintaining a competitive and vibrant industry.

In summary, JAMA Canada supports liberalized trade with any country that has a level playing field and that can ensure that actual and potential foreign investors are treated equally and fairly. We support this Canada-Japan EPA as an opportunity for expanding trade, investment, jobs, and advanced technology among various sectors including automotive, particularly for those looking to diversify beyond traditional markets in NAFTA.

Both Canada and Japan are trading nations and have a long history of supporting multilateral trade liberalization as the preferred route to lower barriers to trade. With the Doha Round on the back burner, many countries have shifted focus to bilateral and regional trade deals.

In this context, neither Canada nor Japan can afford to be left behind. Japan remains the third-largest economy after the U.S. and China. As Japan is Canada's fifth-largest trading partner, an EPA would boost prospects for Canada and Canadian companies to pursue broader strategies and strategic initiatives in Asia.

I thank you for your attention. I would be happy to take any questions.

● (1205)

The Chair: Thank you very much for that testimony.

We have now Kathleen Sullivan, executive director of Canadian Agri-Food Trade Alliance.

The floor is yours. Thank you for coming.

Ms. Kathleen Sullivan (Executive Director, Canadian Agri-Food Trade Alliance): Good afternoon, and thank you for having CAFTA back to the committee.

I'm Kathleen Sullivan and I run CAFTA, which is an organization made up of Canadian farmer or producers groups, processors, and exporters. Our mandate is to pursue high-quality trade agreements on behalf of Canada's agriculture and food sector. My members alone produce about 80% of all of the food and agriculture products that are exported out of Canada. That's about $32 billion that's represented around my board table.

We are very happy to be here to comment on the Canada-Japan economic partnership agreement launched earlier this year. In fact I and about ten of my agriculture colleagues, my members, were pleased to be invited by Minister Ritz to join him in Japan when the Prime Minister launched the trade deal. We were able to hold a number of round tables with our Japanese buyers. I was also fortunate enough to participate with the Prime Minister in a round table with Japanese industry.

Every year Canada exports $40 billion in agriculture and food products from this country. Half of everything we grow across the country leaves to find its way to other shores. That includes half our beef production, but it goes all the way to 85% or 90% of our canola production. Without export markets, the size, the structure, the shape of not just our agriculture community but also our rural communities would be drastically impacted.

For us, Japan is very much a priority market. Japan is heavily dependent on food imports, it has the lowest rate of food self-sufficiency among G-8 countries, and it boasts a large agrifood trade deficit. Last year alone we exported almost $4 billion in products to Japan. That's about 10% of everything we export. It makes Japan, for us, our second-largest export market after the United States.

Today Japan is the largest predictable market for Canadian canola seed, the second-largest market for our malt and for our pork, the third-largest market for our wheat, and the fourth-largest market for Canadian beef.

Although agriculture is just 1.5% of Japan's GDP, Japan's agriculture sector is highly subsidized, and it's heavily protected through tariffs and border measures. Tariffs on agriculture products are as high as 50%—on beef, for example—and much higher on sugar and sugar-containing products.

Given the importance of the Japanese market for Canada, it's imperative that any trade deal we sign with that country have a very strong agriculture package. The protection that Japan affords its agriculture and food sectors has long been viewed by us as an impediment to meaningful trade negotiations with that country, but about a year and a half ago Japan launched its basic policy on comprehensive economic partnerships. It really spoke to the importance of Japan taking a look at export markets and making the necessary domestic reforms that would allow it to support meaningful trade deals. That encourages us that in fact trade negotiations with Japan could be quite fruitful.

CAFTA also encourages the Canadian government and Japan to pursue a very, very broad trade deal. It can't just be focused on tariffs, as was talked about in the previous panel. Certainly for agriculture, half of the problems we face around the world are non-tariff barriers. Those will have to play a really critical part in any trade deal.

Finally, I'd just like to quickly reference the Trans-Pacific Partnership. I don't think you can talk about a trade deal with Japan any more without putting it in the context of the TPP.

Of course the launch of the Canada-Japan EPA coincides with the applications of Canada, Mexico, and Japan to join the Trans-Pacific Partnership, which is a regional Pacific Rim trade deal currently comprised of nine countries, including the United States.

We believe Canada should make TPP membership a priority, and the government is working very hard on that. The TPP offers significant opportunities for us not just on a market access standpoint but to be able to deal with non-tariff barriers and certainly growth opportunities if you move beyond the current nine-member configuration.

What's really critical to know about the Trans-Pacific Partnership, though, is that if Japan is in that group, Canada must be at that table. We already have a situation, as I think you all know, in Korea, where both the U.S. and the EU got into Korea ahead of us. We're now at risk of losing that billion-dollar market to our major competitors. We cannot afford the risk that Japan would join the TPP and Canada be left out.

So while we're very interested in joining the Trans-Pacific Partnership, our even stronger message to you is that we have to join in sequence with the Japanese.

With that, I would just like to say that our TPP interest does not detract at all from our interest in the Japanese market. It is a major marketplace for us. It's an incredibly stable marketplace for us. We have a very long and healthy relationship with our Japanese buyers that we want to continue to grow.

● (1210)

With that, I'd be happy to take any questions you have.

The Chair: Thank you very much.

We'll start with Mr. Davies.

Mr. Don Davies: Thank you to both witnesses for excellent and helpful presentations.

I have questions for both of you, so I'll try to go rapidly. If you could keep your answers short so I can get as many of these in as possible, I'd appreciate it.

Ms. Sullivan, I know you have industries and members that are very strongly in favour of their supply-managed systems. You have strongly advocated joining the TPP, I understand, in concert with Japan; but it's well known that putting supply management on the table is a precondition for doing so.

How do you rationalize that risk to our supply-managed system as a condition of entering talks versus the fact that some of your members really want supply management to stay?

Ms. Kathleen Sullivan: I don't think I go anywhere without being asked about supply management. CAFTA doesn't take a position on supply management. Our view in agriculture is live and let live. Now, at some point the interests do collide, if you will, because we're looking for trade opportunities.

I think the important thing to remember or focus on with trade deals right now is that Canada should not have any exclusions in its negotiating mandates. I don't believe this means that when Canada gets to the negotiating table, it necessarily or should appropriately trade off any particular sector. But I think what's key for TPP membership is that Canada not exclude anything up front. By the same token, we certainly don't believe that Canada should pre-negotiate anything. Doing so just weakens our position when we actually get to the negotiating table.

We trust our negotiators—Canada has world-class trade negotiators—and we trust that when they get to the table, they will be able to manage all of Canada's sensitivities, just as every other country is.

Mr. Don Davies: Speaking of pre-negotiations, I think there's controversy over a negative-list versus positive-list approach. One of the criticisms of a negative-list approach, which Canada has been taking with CIDA, is that it does exactly that, it predetermines. Because if we don't specifically exclude something, goods and services that have not even been invented yet, that we're not even aware of will be subject to free trade because of a negative-list approach.

Do you have any comment on that approach or that concern?

Ms. Kathleen Sullivan: I know it's an issue that's come up quite significantly in the context of Canada-EU. It's not really an issue that affects us in agriculture. Certainly in the context of Canada-EU, I'm really pleased to see at this point in the negotiations that about 96% or 97% of agriculture tariff lines will go duty-free on day one. We're quite pleased at that. The negative or positive list, I believe, goes more to government procurement services and investment. I'm probably not the best-informed person to answer.

● (1215)

Mr. Don Davies: Fair enough.

Mr. Worts, I understand that right now the playing field is not level. There's a 6% tariff on Japanese-built vehicles coming to Canada, and there's no tariff on Canadian-built vehicles going into Japan, if I understand correctly. If Canadian tariffs are removed, do you foresee the Japanese companies that are presently producing in Canada moving back to Japan?

Mr. David Worts: No, I don't see that.

Mr. Don Davies: Do you see that happening for any production?

Mr. David Worts: The removal of the 6.1% tariff for us is related to the fact that one-third of the vehicles that we sell in Canada—and two out of three are built locally as I mentioned in my presentation—still come from Japan, and a number of our member companies are still reliant on Japan for those vehicles. While there is a lot of production in Canada—in fact more than we consume here—we anticipate that removal of the tariff would help us to better compete in the market in Canada, particularly with advanced technology vehicles, because they tend to be higher cost, and we would be able to introduce environmentally friendly, fuel-efficient, and safer vehicles.

Mr. Don Davies: As you know, the Canadian Vehicle Manufacturers' Association has publicly opposed a trade deal with Japan. One thing I'm interested in learning more about is how Japanese-built cars are selling great in Canada, but for some reason cars built in Canada and North America have had a very difficult time penetrating the Japanese market.

Do you have any comment on that or can you explain to us why that might be the case?

Mr. David Worts: Well, let me say first of all that I think it's often related to the effort that's put into it. I know that American companies have obviously been disappointed by their performance in Japan, but the fact of the matter is that they seem to have been diminishing their operations in Japan over the past number of years.

The reduced number of vehicles they're actually selling in the market and the reduced number of dealerships in the market...all critical to doing well, I think, in a very competitive market. They have not shown up at the Tokyo motor show for the last couple of events, since about 2005. They may have been attracted by the opportunities in China because, after all, Japan is a tough market. We do have over 40 different foreign brands that compete in the market.

They tend to compete in the larger engine or larger segment portion of the market and, of course, that makes sense, because that's where the profits are. The European experience I think has been quite different. While the Americans have been reducing the dealerships and the models they sell in Japan, the Europeans have been increasing them significantly and the results have paid off for them.

The Chair: Thank you very much.

We'll now go to Mr. Shipley.

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

Thanks very much to both of you for being here. This is actually another one of those pretty significant trade agreements for Canadians. Today we're talking to the agriculture and auto industries in this segment.

Ms. Sullivan, I was a little curious about your being over in Japan prior to the time you were in Tokyo with Minister Ritz and the Prime Minister. You've been there before. We had Mr. Phillips and Mr. Masswohl in here just the other day, when we were not able to accommodate you.

Can you give us a little bit of sense from when you were there about what kind of reception you are getting as a group of agriculture producers and processors on this particular agreement and on the talks?

● (1220)

Ms. Kathleen Sullivan: The meetings we're having are primarily with our buyers, and they're quite enthusiastic about the possibility of a trade deal. The relationship between Canada and Japan, when it comes to agriculture and food exports, has been around for a long time. It's quite a stable relationship and, as I think a few people have pointed out, stability of relationship is very important to our Japanese buyers.

In fact, we did a round table with Minister Ritz and the grain purchasers, and their biggest concern was with the Wheat Board and what would happen with stability of supply. Fortunately, Minister Ritz and Ian White from the Wheat Board were there and were able to provide the reassurances that our Japanese clients wanted.

I think that in terms of the buyers in Japan there's quite a bit of enthusiasm for a trade deal with Canada.

Mr. Bev Shipley: So then, when you're meeting with these folks.... Something that has come up in just about every presentation we've had—and I think it's actually something that bodes so well for our Canadian reputation—is that they require a premium product. That's what these folks strive to be able to buy when they're dealing with a particular country. I think Canada is known around the world as a quality product country, and the Canadian flag means a lot on some of those things.

So now, when you get that fairly large opportunity for growth, sometimes when growth happens, quality drops. I'm interested in your perspective, Ms. Sullivan, on how you're going to be able to maintain that, because Canada is unique in being able to separate and to keep our separation, whether it's in the meat industry or whether it's the grains. Are you confident as we move forward that your producers and processors are going to be able to maintain and to still value that premium product?

Ms. Kathleen Sullivan: You know, I am, and I think you raise an important point. From an agriculture perspective, we are quite thrilled with the trade agenda right now. If you take a look at a few of the TPP countries, Canada is negotiating or trying to negotiate with 80% of the markets that we export to. So it's pretty important for us.

In terms of Canadian agriculture and food groups, I'll take the Canada-EU CETA as an example. For the past three years we haven't been working on that just here in Canada; we also go to Europe regularly. We know it's important for us to understand what the implications of a deal are so that we can then back everything right down to the farm level, take a look at processing capacity, and start to ensure that structurally the industry is ready.

I think in terms of our food safety systems, our inspections systems, we have the infrastructure we need there. It's really a question of ensuring that we have both the production and the processing capacity. That is a challenge that the industry has, but it's one that I can assure you we've taken on and are starting to look at in terms of the Japanese deal but also a European deal and all of the other deals in the queue.

Mr. Bev Shipley: Thank you.

Just as a follow-up, there's been an economic model done on Canada-Japan, a bit of a joint study. I always struggle with these, because this one indicated that there will be a GDP benefit of $4 billion to $9 billion. You get a 100% jump.

I suspect that some of it—as we heard from the forestry products folks, for example—has to do with how we'll market the whole product that we have to a country. We don't know the answers to that yet. It likely has a lot to do, I think, with the quality and the premium products that we'll be able to provide for a price that they're willing to pay.

That's basically just by developing a trade agreement and taking away some of those trade barriers. In agriculture some of them are at 38%, so we have significant ones.

I'm just wondering, Kathleen, in terms of your organization, are there particular commodities that you see as gaining the most potential or benefit out of an agreement?

Ms. Kathleen Sullivan: Yes. I think we have benefits pretty much across the board, but certainly for beef and pork we see a lot of opportunity, and also in the canola sector.

I mean, right now, just because of the tariff structure, we can get canola seed into Japan with no tariffs, but our oils have pretty significant tariffs, and that supports the domestic processing sector. If we could change that arrangement and start to export our oils to Japan, first of all it's a higher-value product; secondly, the processing jobs stay in Canada, so it provides an even better economic benefit here.

Right now beef, pork, and canola would be our top agriculture exports. If we could open the markets for those or expand them, that would be tremendous.

That really is where the benefit could be concentrated.

● (1225)

Mr. Bev Shipley: Thank you.

In your opening statement you said that you're encouraged by Japan's basic policy on comprehensive economic partnerships. That was brought in about a year and a half ago.

Can you expand a little bit on that, just to help us understand what that actually means to you and to the agriculture producers, and likely to the processors also?

Ms. Kathleen Sullivan: Japan does seem to have a protectionist approach to its agriculture sectors. I think the fact that the Japanese government indicated that they need to focus on trade markets, and that they'll have to take a look at some domestic reforms in order to do that, is an incredibly positive signal not just to us but I think to a lot of economies here in Canada.

Agriculture, fisheries, and forestry are quite protected in Japan. Those are probably the sectors that could benefit the most from the trade deal, so it's quite positive for us that we're seeing those signals.

The Chair: Thank you very much.

We'll now move to Mr. Easter.

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

Thank you to both witnesses for their presentations.

Turning first to the Japan Automobile Manufacturers Association, I guess especially in the Ontario economy—and I don't think we often see or understand this from the rest of the country—the automobile industry is the number one generator of economic growth, or has been. It's been bouncing back and forth between agriculture and the auto industry in the last number of years.

How do you see this proposed trade agreement growing that auto industry even more in Canada? You went through the job numbers. I think there were some concerns in the beginning about displacing Canadian jobs with Japanese cars, but we are a staging ground for export to other countries, as I understand it, on Japanese models.

How do you see this trade agreement in fact building and growing on that?

Mr. David Worts: As I mentioned, I think we will have the ability to bring in vehicles that would attract a 6.1% tariff, particularly higher-cost advanced technology vehicles, which are typically sourced at this point in Japan. The usual process, I think, is to establish a market for the vehicles and at some point build a business case for local production. I'm encouraged by the fact that more sophisticated platforms are now appearing in Canada with the RAV4 EV going to be manufactured in Woodstock. I think that would help the process. That would certainly be one of them.

Obviously, the value of the yen is a big issue for a lot of Japanese manufacturers and certainly for the automakers in Japan. There's a lot of pressure on them to co-locate production in export markets and to reduce their exposure to the currency. When you get assembly plants, as we've seen historically with the plants that have come here, you get a knock-on effect with supplier investment as well.

Hon. Wayne Easter: Thank you.

I'll turn now to CAFTA.

Kathleen, I know pretty well where you stand on trade agreements, but there are some other obstacles, especially in the export of agricultural goods from this country, whether value-added or raw materials but to a great extent raw materials, putting Canada at an extreme disadvantage. There's one in particular that the government has been failing dismally on, and that is the service review related to the railways. I'm wondering if CAFTA has a position on the service review and why the government has not acted on that.

I'll be blunt. My own view on Transport Canada is that it should be called the department of railways because it's always coming down on the railways' side. The government, for whatever reason, has failed to act on that service review, so I'm wondering where you're at on that and whether it puts us at a disadvantage.

● (1230)

Ms. Kathleen Sullivan: CAFTA doesn't take a position on the rail service review, partly because it's a domestic issue and also because not all of my members' products would be transported by rail primarily. Certainly, as you know, a lot of our members, particularly on the grain side, would have significant concerns about rail service in Canada. As we are opening up more markets in Asia, those concerns are likely to grow rather than fade away. There's not much I can say on the review itself because we don't engage ourselves in that, but certainly rail service is a concern on the grain and oil seeds side.

Hon. Wayne Easter: You talked about the TPP and about how it should certainly be given priority. It isn't a sure thing, as I understand it, that Japan will be a part of that package necessarily. Does that change the position any?

Ms. Kathleen Sullivan: It doesn't really. There are some additional export opportunities within the family of current TPP countries, albeit they're probably not hugely significant. Vietnam might be a good opportunity for some growth, but a lot of the TPP countries compete with us as it is.

From an agriculture standpoint, I think the real value of joining the TPP is the possibility of future growth if other countries are added in. But to me the real opportunity here is the possibility of being part of what I would call a regional supply chain. You have a group of countries dealing with SPS issues, minimum residue level issues, and rules of origin on a regional basis. That's really where, from an agriculture standpoint, you start to see some real advantages.

Really, half the problem for agriculture when it comes to trade is non-tariff barriers. Now, to the extent we deal with them, some are through the WTO or other international bodies, but a lot are on a bilateral basis, and you get a patchwork approach. If you can get an organization like the TPP that maybe then grows into a broader APEC initiative that starts to look at issues such as low-level presence of genetically modified material, for example—and you can do that on a regional basis—you can then really start to get to that rules-based trading system you were talking about with the earlier panel. I think, from an agriculture standpoint, there's a huge possibility here.

The Chair: Time is up, but I want to thank you for the questions.

We'll move to Mr. Shory, and Mr. Dechert.

Mr. Easter, I'll help you with the rail freight service review.

Mr. Devinder Shory (Calgary Northeast, CPC): Thank you, Mr. Chair. I'll be splitting my time with Mr. Dechert.

Thank you, witnesses, for being here.

Mr. Worts, you mentioned that there have not been any layoffs in the plants in North America. How many plants and workers are there in Canada presently?

Mr. David Worts: In the vehicle plants there are about 11,000, and there are about 15,000 in over 50 auto-related operations in Canada. Therefore, there are about 26,000 on the manufacturing side.

Mr. Devinder Shory: If this agreement were implemented, do you think the elimination of tariffs would help you to expand your business, expand your manufacturing plants here, which would obviously create more jobs in Canada?

Mr. David Worts: As I mentioned earlier, the 6.1% tariff in terms of the costs that the Japanese automakers are facing is not that significant in terms of their production. It's more on the market side that we're looking at the impact of the 6.1% tariff.

In a sense, there are two industries in Canada; it's kind of bifurcated. The production side is largely export based. Even our operations in Canada would not be the size they are without access to the larger U.S. market. While we keep a lot more of the production here in Canada because we build small vehicles that Canadians prefer, the U.S. market is still a critical part of that.

During the recession when the U.S. market took a big dive, the production side was the biggest side of the industry that was hurt in Canada. It wasn't so much the market, but that the production plants were seriously affected by that. Then with the tsunami and other disasters last year, our production was down about 50%, I think, through a number of months before the supply chain started to get repaired.

We're supporting the trade deal for the benefits that would come obviously from lower tariffs, but we think there are also opportunities for many other sectors that we think would be beneficial for both countries.

● (1235)

Mr. Devinder Shory: It was suggested earlier that North American companies, for some reason, are not successful in Japan's market.

The elimination of tariffs, once the agreement with Japan was signed and implemented, I believe would open the market, or it would work as a gateway to some other Asian countries. Would that not give an opportunity to these manufacturers, if they work toward that, to have a platform to get into other markets as well?

Mr. David Worts: Absolutely.

There are no tariffs into the Japanese automobile market, either on the vehicle side or the parts side. We have seen some Canadian investment in Japan to connect with Japanese, either major suppliers or OEMs, not just for business in Japan, but for business in other global markets.

To the extent that we re-engage with Japan, I think will have synergies that will impact the industry as well.

The Chair: Thank you.

Mr. Dechert.

Mr. Bob Dechert (Mississauga—Erindale, CPC): Thank you, Mr. Chair.

Thank you very much, Ms. Sullivan, and Mr. Worts, for sharing your important information with us today.

Mr. Worts, I come from Mississauga, which is where the headquarters of a couple of Japanese auto manufacturers in Canada are located. A lot of the auto parts that are used in those plants are manufactured in the Mississauga area and the greater Toronto area. It's a very important part of our economy.

You mentioned in your opening remarks that Japan is a challenging market for domestic Canadian and U.S. auto manufacturers, and that Canada and U.S. manufacturers do best in the larger engine vehicle markets.

I was wondering if you could tell us what the Japanese consumer is looking for in autos. How could Canadian and U.S. domestic auto manufacturers better access the Japanese consumer market for autos?

Mr. David Worts: I certainly will try. I'm not an expert on the Japanese market, but Japan, as you may know, is a small car market. About 88% of the vehicles have engines that are under 2 litres. In that particular segment, according to the JAMA Tokyo document I have here, two U.S. automakers have models that compete in that particular segment, whereas European automakers have about 81 models.

Not only is Japan a small car market, but about a third of the market is mini-vehicles. This seems to be a unique segment for Japan. It's a very small vehicle with a very small engine, so even the smart vehicle, which might qualify in terms of its size, doesn't because of the engine.

Also, of course, the consumer market in Japan differs from that in North America because a lot of Japanese consumers don't use their vehicles to drive to work. I have friends in Japan who have vehicles and who only use them to go to the golf course on the weekend. Certainly if you're in the major urban areas, you're going to be using public transit to get to work. Very few people are driving, so I think people look at their vehicles differently. They're very brand conscious. I think that's why European automakers do well in the particular segments they do: because European brands are highly valued.

I'm not sure about exactly how Japanese consumers view American brands. When the Detroit companies participated in the Tokyo motor show, typically they exhibited a Corvette, a Hummer, a Lincoln, or a Cadillac. These are premium exotic vehicles in terms of what sells in Japan.

It's a difficult market because there are eight domestic Japanese companies making vehicles in Japan.

● (1240)

The Chair: Thank you very much for that answer.

We'll go now to Madame Papillon.

The floor is yours.

[*Translation*]

Ms. Annick Papillon (Québec, NDP): First off, Ms. Sullivan, I would like to thank you for being here.

I would like to know whether you did any research on the impact of this agreement in Japan or in Canada.

[*English*]

Ms. Kathleen Sullivan: From CAFTA's standpoint and what we've done, essentially whenever we take a look at an FTA with another country we do a review with our members of the issues they face in that market and what they think the potential could be. From our members, their estimate was about $350 million in additional trade, just for the beef and pork sectors. For the other industries, it really very much depends on what the negotiations are going to look like.

We are also working with Agriculture Canada on the possibility of doing some further analysis, a more specific industry analysis for agriculture, for this particular deal.

[*Translation*]

Ms. Annick Papillon: And you, Mr. Worts?

[*English*]

Mr. David Worts: Thank you.

We surveyed our members. If I can put it in a slightly different context, our concern after the 2001 repealing of the Auto Pact was that Canada entered, I think, into negotiations with South Korea in 2006. South Korea is a major auto producer and exporter, and giving preferential treatment to some vehicles in Canada would be a big issue for our members, who have to compete in a very competitive market. Then adding the CETA, the agreement with the European Union, brought in not only Korean vehicles but also European vehicles, which really comprise the rest of the industry, for the most part. So what was missing there was a deal with Japan.

So we were saying, look, we're concerned about the implications this might have, not only for our members for the market here and for competing imports from Japan, but also in the longer term for how investment might be perceived in the Canadian market if the government is not prepared to give preferential treatment to Japanese vehicles as well.

So when the Canada-Japan trade deal was announced, I think that was a big step in the right direction as far as we were concerned.

[*Translation*]

Ms. Annick Papillon: Can you assure me that, in light of all the impact studies you conducted, if we were to eliminate the 6% tariff, for instance, it would not necessarily be more attractive to build them in Japan? Was that something that came up in your studies?

[*English*]

Mr. David Worts: Not in the studies, per se. In fact the Department of Foreign Affairs and International Trade did a study with the onset of the Korea agreement that looked at the impact of free trade agreements with Korea, the EU, and Japan, and a sort of unilateral elimination. You might want to refer to that: I think it shows there's a very minimal impact on Canada overall.

We have some concerns about the impact it would have in the small car market in particular, where customers are very price-sensitive, where a small price difference can make a huge difference to whether or not a customer buys one vehicle versus another, particularly price on a monthly payment basis.

In terms of investment or production coming from Japan, my sense, just looking at what's happened recently, is that the value of the yen is really driving more co-location of production outside of Japan. We already see a number of investments that have been announced for North America. In Canada we've received the CR-V, a compact light vehicle, in Alliston, as well as the RAV4 in the last couple of years—again, a competitive small vehicle—for the Canadian market.

My sense is that the yen is driving a lot of that outward investment.

● (1245)

The Chair: Thank you very much.

We are going to break and go in camera in a couple of minutes.

Mr. Keddy, you have two minutes to finish off the question and answer period.

Mr. Gerald Keddy: Two minutes is just time enough to say thank you to both of our witnesses. There were some excellent comments given here today, and terrific testimony.

I can't allow this to close without saying that competition generally in industry is good. If we have a major auto show in Tokyo and we're no-shows at it, then how do we expect to sell vehicles there? It really does make me shake my head.

On the farm side, I appreciate your comments on supply management. It has not stopped us from signing nine trade agreements since we formed government in 2006, and I don't think it'll stop us from future agreements.

With those comments, Mr. Chairman, since I know we have a little bit of time for some other business, I'll just say thank you.

And those were great answers, too.

The Chair: Thank you, Kathleen, and Dave, for coming. We certainly appreciate that.

Mr. Keddy has already thanked you, and on behalf of the committee, I thank you very much as well.

We'll now break to go in camera—

Mr. Don Davies: Mr. Chairman, I'd like to move a motion prior to going in camera, please.

The Chair: Okay, go ahead.

Mr. Don Davies: Mr. Chairman, I did serve 48 hours' notice pursuant to the Standing Orders.

The motion reads:

> That, pursuant to Standing Order 108(2), the Standing Committee on International Trade immediately commence a study on the subject matter related to the sections of Bill C-38, An Act to implement certain provisions of the budget tabled in Parliament on March 29, 2012 and other measures, which directly fall within the mandate of this committee, namely Part 4, Division 32, Canadian International Trade Tribunal Act.

Mr. Chairman, I'm happy to speak to the motion, and I would like to have this motion debated in public.

The Chair: We have the motion on the floor. We can discuss the motion or move to a vote.

Mr. Gerald Keddy: We should go in camera.

Hon. Wayne Easter: [*Inaudible—Editor*]

The Chair: Okay.

Excuse me, Mr. Keddy, did you just move that we go in camera?

● (1250)

Hon. Wayne Easter: I think I was on first, Mr. Chairman. I had my hand up. I know you don't look to the left, but you should.

The Chair: Mr. Keddy has moved that we go in camera. It's non-debatable. All in favour?

Mr. Don Davies: Could we have a recorded vote on that motion, please?

The Chair: We can.

(Motion agreed to: yeas 6; nays 5)

The Chair: With that, we will suspend and move in camera.

[*Proceedings continue in camera*]

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