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**EVIDENCE**

**Tuesday, May 15, 2012**



**Chair**

**The Honourable Rob Merrifield**



## Standing Committee on International Trade

Tuesday, May 15, 2012

•(1140)

[English]

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

We want to thank our witnesses for being here. We're continuing our study on a comprehensive partnership agreement between Japan and Canada.

We have before us the Council of Canadians. Stuart Trew, thank you for being here again before our committee.

We also have, by video conference from the University of Toronto, Wendy Dobson, professor of international business.

Ms. Dobson, are we coming through all right?

**Dr. Wendy Dobson (Professor of International Business, Director, Institute for International Business, University of Toronto):** It's fine, thanks.

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

We have an abbreviated hour, so we have one witness coming into the second hour from the Canadian Auto Workers Union: James Stanford, an economist. He'll be joining us by way of video conferencing. As he gets here, probably by the end of the testimony of the first two witnesses, we will ask him for remarks and then will do the question-and-answer portion all together.

Mr. Trew, the floor is yours. You can start.

**Mr. Stuart Trew (Trade Campaigner, Council of Canadians):** Thanks very much, Chair.

I represent the Council of Canadians. I'm the trade campaigner. I think some of you may know that we're Canada's largest citizens advocacy organization. We have about 75,000 supporters across the country and we work locally, nationally, and internationally to promote fair trade; access to clean water and sanitation; energy, security, and climate justice; public health care; and other issues of social and economic concern to Canadians.

We very much appreciate this opportunity to make some general observations on Canada's interest in pursuing a trade treaty with Japan. Before I get to my comments, I'd like to congratulate the committee for taking this step prior to a negotiation being completed. I know that normally the committee gets a signed agreement and is asked to either approve or not. This is a good opportunity to take a look at how an agreement might look differently, essentially. I want to congratulate the committee, in that respect.

In the presentation I'm about to make, I'd like to do two things. The first would be to draw your attention to a set of business and labour principles for a 21st century U.S. trade agenda that was released a few weeks ago in response to the Obama administration's free trade agenda. I think four in particular are quite relevant to what Canada could consider when going forward with any partnership with Japan.

Second, I'd like to propose that Canada should make any negotiations with Japan contingent on its dropping its WTO challenge to the Green Energy Act. A second hearing into these disputes is happening today in Geneva, perhaps as we speak. Canada is defending the sustainable development policy, so it would seem contradictory to embrace a free trade deal with Japan while this dispute is still alive.

The first point concerns the 21st century trade agreement principles. This month the Coalition for a Prosperous America—it's a coalition of manufacturing, agricultural, worker, consumer, and citizen interests—issued a list of what they call 21st century trade agreement principles. For those not familiar with this group, its members include the Copper & Brass Fabricators Council, the Ranchers-Cattlemen Action Legal Fund of the United Stockgrowers of America, AFL-CIO, Penn United Technologies, Lapham-Hickey Steel Corporation, and other groups. I'd like to draw your attention to four of the principles, which I think could inform Canada's possible negotiation with Japan.

The first principle is balanced trade, the idea that trade agreements must contribute to a national goal of achieving a manageable balance of trade over time. This is to say that when signing a deal, Canada should not just think about export gains in a few areas but also about the impact of imports on the Canadian economy. Outside of the United States, Canada has a trade deficit with most of its free trade partners. The government's own numbers show that the deficit will increase with the EU, for example, if the comprehensive economic and trade agreement is signed in its current form.

Like the EU, Japan is a leader in high-value-added manufactured exports. There is already a high trade deficit in autos, although the Canada-Japan relationship is fairly balanced, as I understand it, in other areas. A results-oriented goal of manageable trade, in the words of the U.S. coalition, would avoid free trade deals that are designed or destined to worsen Canada's trade balance.

The second principle would be a national trade and economic strategy. Like the U.S., Canada has tended to pursue trade liberalization as an end in itself. Our export priorities are often very similar to those of the United States—grains, meat, fish, other agricultural products—and like the U.S., Canada in its trade deals has focused narrowly on reinforcing existing trade patterns. This does nothing to improve the value-added content of our exports.

The DFAIT web page for the Japan negotiations makes it clear that the government sees mainly gains for these same raw resources, this same set of exports. Let's call them "limited vested interest groups". The committee has already heard from some of them during these negotiations, I understand.

Japan also calls the Canadian pattern "external dependence". Instead of reinforcing this external dependence of the Canadian economy on exports or certain types of exports, perhaps trade negotiations should be conducted to further a national trade, economic, and sustainable development strategy. Canada's existing free trade deals prohibit many but not all of the ways in which a government can seek to move its economy up the value-added supply chain by turning raw resources into finished goods here in Canada. The benefit of a more hands-on approach to developing our economy is that it allows you to do this in a much more sustainable way and to avoid the resource trap we seem to be getting into.

The fourth principle is temporary versus permanent agreements. Again, these are all part of the U.S. set of principles for a 21st century American trade policy.

Trade agreements should contain sunset clauses or otherwise be subject to renegotiation and renewal. This makes sense for a couple of reasons. First, under existing agreements, a country can pull out if a deal is unsatisfactory, but it's almost impossible to do so. I think having a three- or five-year period when you could renegotiate or pull out if it's not in your interest makes a lot of sense.

• (1145)

Trade deals can also create more hassles for governments than they're worth. I'm thinking, for example, of investment protections and the investor-state dispute settlement provisions in NAFTA and other bilateral trade agreements. They have not improved investment flows across borders or encouraged new FDI either into or out of Canada. At least there's no evidence for it. They have been used again and again to challenge legitimate environmental public health and resource conservation measures. Canada is the sixth-most-sued country under this process, according to a recent UNCTAD report.

The fifth principle would be the domestic procurement. I'll relate this to Japan's challenge to the Green Energy Act. The Coalition for a Prosperous America also says that trade agreements must preserve the ability of federal, provincial, and local governments to favour domestic producers in government or government-funded procurement. We agree with this principle. But successive procurement

negotiations—first with the United States, then at the WTO, and now with the EU—have limited spending freedoms by provincial governments, and risk doing the same with Canadian municipalities.

We think this is the wrong way to go, and Canada in its defence of the Green Energy Act at the WTO seems to agree. The Canadian submission claims GATT rules allow governments to use procurement to pursue public policy if the purchase is for governmental purposes and not for commercial resale. This is related to the Green Energy Act dispute.

The submission also quotes Japan's Ministry of Economy, Trade and Industry, which has claimed that GATT Article III:8(a) permits governments to purchase domestic products preferentially, making government procurement one exception to the national treatment rule. This exception is permitted because WTO members recognize the role of government procurement in national policy. For example, there may be a security need to develop and purchase products domestically, or government procurement may, as is often the case, be used as a policy tool to promote smaller business, local industry, or advanced technologies.

Given this position of the Japanese government, I think it's strange to see Japan claiming the opposite at the WTO. We strongly urge this committee, as part of Canada's vigorous defence of the Green Energy Act, to make any negotiation with Japan contingent on their dropping this WTO challenge to Canada's landmark sustainable development and climate change measures.

Thank you.

**The Chair:** Thank you.

Ms. Dobson.

**Dr. Wendy Dobson:** Good morning. Thank you very much for the opportunity to talk to you.

Can you hear me okay?

**The Chair:** Yes, you're coming through loud and clear.

**Dr. Wendy Dobson:** I'd like to make four points, one about the past and three about the future, and start with a context that goes back to 1986, when I and a Japanese colleague published a study of Canada-Japan relations. At that time, we situated the Canada-Japan relationship within the Canada-U.S.-Japan triangle, since when asked what they thought about Canada-Japan relationships, many would answer, "We think about the U.S."

So one of our recommendations in 1986 was that we deepen our trade ties with the U.S. through a bilateral FTA, since that would attract Japanese producers to situate in Canada and take advantage of lower costs and a favourable exchange rate at that time in order to serve the U.S. market. Well, what a difference a quarter of a century makes. In 1986 Americans were lamenting their lack of competitiveness and pressuring the Japanese to allow yen appreciation, and sociologist Ezra Vogel was counselling Americans to adopt more Japan-like institutions to manage the economy and labour relations.

Then, in 1999, I chaired a task force that again studied the future of Canada-Japan relations. This time, it was sponsored by the Japan External Trade Organization, or JETRO. At that time we recommended that the two governments set a 2010 target to achieve comprehensive liberalization of bilateral trade and investment flows. Stressing the importance of greater specialization on both sides as the basis for greater intra-industry trade, we encouraged governments and business groups to explore common interests in such areas as communications, health and social services, and medical devices, as well as environmental goods and services.

Well, 2012 misses that target by only two years.

In the intervening period, the Japanese economy has endured near-stagnation, and the vaunted resilience of the Japanese people has been sorely tested by lingering fears of radiation and the decommissioning of its 54 nuclear power generating plants. The country's governance is also gridlocked by political infighting, something we're familiar with in our neighbour to the south.

So here's one of my questions today. Is dynamic Asia—since certainly Asia is the most dynamic part of the world right now—passing both countries by?

Well, on the Japanese side, Japan is now the third-largest economy after China and the United States, but it's still one of the richest in per capita income terms. Its technological dynamism is highly impressive in a number of sectors, and it is one of the largest investors in dynamic Asia and a key player in the regional production networks that tie the region together.

Japanese business is in the midst of a transformation from the traditional *keiretsu*-based model, which exports finished goods, seeks global market share, and tolerates underperformers—which we now call zombie firms—to one that allows and sees much greater diversification in models with highly focused firms and major positions in Asian supply chains.

As much as 20% of Japanese manufacturing is now located abroad. Its exports increasingly consist of highly innovative and advanced components and materials that in turn are used in the production of electronics and vehicles in the rest of the region and beyond. Examples of such exports include fine chemicals, the

machinery that makes electronic components, and the carbon fibre that's now used in the bodies of airliners like the Dreamliner.

Japan has also actively pursued economic partnership agreements—and I use that term carefully—with eight Asian countries and with the Association of Southeast Asian Nations, or ASEAN, as well as Switzerland, Peru, Chile, and Mexico. There are good reasons these agreements are called EPAs—because they're not comprehensive free trade agreements. The earliest agreement, with Singapore in 2002, comes closest to across-the-board liberalization, for the simple reason that Singapore has no agriculture sector aiming to penetrate the Japanese market—beyond orchids.

• (1150)

What of Canada's side of the relationship? Beginning with the Asian region, since I believe any strategy on our part toward a particular Asian economy has to be formulated within an Asian regional context, Canada has earned a reputation for turning up but not following through. We've completed no FTAs with any major Asian economy, even though our own talks with Singapore began a decade ago.

There are good reasons to pursue the proposed CEPA initiative with Japan within the larger Asian strategy. One reason relates to current Asian preoccupations. We tend to be extremely preoccupied with our own internal issues and forget about what's going on in the rest of the world.

In Asia, the economies are busy integrating. Most Asian governments have engaged in unilateral liberalization of both trade and investment to catch up with the cross-border initiatives that are taken by their own businesses. The smaller economies are also increasingly concerned about being swept up into a tight Chinese embrace, reminiscent of the historical tribute relationships in which the neighbours acknowledged the superiority of the emperor in exchange for political stability and positive commercial relations.

So the answer in Asia is to create regional institutions where there have been none. That's what their preferential trade agreements are mostly about. That's what their emergency financing mechanism, known by the unwieldy name the Chiang Mai initiative multi-lateralization, is also about. In the future the East Asia Summit, which includes Australia, India, New Zealand, Russia, and the United States as well as the ASEAN countries and does not include Canada, will be the economic and security institution of the future.

We all know our relationship with Japan is our longest-standing in the Asian region and our commercial ties go back a hundred years. Despite the nuclear disaster and a shrinking population, the Japanese economy will continue to be one of the world's largest and richest for years to come. But Japan is our second-largest trading partner in the region now, and our total trade is roughly half the size of bilateral trade with China. Like that with China, the trade is largely complementary, with Japan buying natural resources and energy and Canada buying finished goods.

What should we do together, looking to the future? I think the history of the bilateral relationship provides a strong base for the future. I would offer three principles for the framework of the negotiation.

First, Japan has a rather uncertain near-term future. I think we should not expect results from this initiative and Japanese politicians, since they continue to struggle with the huge adjustments implied by public insistence on moving away from nuclear power generation. The switch to oil and natural gas imports has already pushed Japan's substantial trade surplus into a deficit.

Second, I don't think the goals of the negotiation should be diminished by Japan's difficulties right now. They should be ambitious, taking into account the rise in the Asian economies and the changing organization of global production.

Both countries should set ambitious goals for these negotiations or be left behind by other Pacific Rim countries. Why do I say that? Because three different regional trade agreements are in train in Asia. One is exclusively Asian. The other two are pan-Pacific. One, initiated by APEC, is called the free trade area of the Asia Pacific, FTAAP, and it's moving slowly, as things do in APEC. The second pan-Pacific initiative was initiated by four small countries on both sides of the Pacific and is now known as the Trans-Pacific Partnership, TPP, which the U.S. applied to join in the waning days of the Bush administration.

• (1155)

The TPP is a significant initiative for a number of reasons, but what matters to us today is its ambition: to be a comprehensive, high-quality, 21st century agreement, which includes investment services, competition policy, intellectual property protection, and other domestic policies that reduce the efficiency to be found in global supply chains. None of the other variants of trade agreements in the Asia Pacific yet measure up to the TPP in its comprehensiveness, and none is as far along.

Both Canadian and Japanese leaders have asked to join the TPP, but the nine countries that are already members have yet to come to a conclusion.

The point I wish to emphasize in these comments is that it is within this context and ambition that our bilateral talks should be pursued. The outcome should be consistent with or superior to TPP provisions so that at some future date this bilateral agreement can be rolled into a larger agreement.

The negotiating framework implied by the joint study published by DFAIT looks promising, in that it does not exclude the most sensitive areas of agriculture, forestry, and fisheries. But in predicting the outcome of this negotiation, one only has to look at

Japan's negotiation with Australia, which began in 2007. It's now in its fifteenth round, and the two sides remain apart on trade liberalization in agriculture. DFAIT's joint study uses language that could also imply that Japan has already taken agriculture, forestry, and fisheries off the table, despite its interest in Canada's potential role in its goals of food and energy security.

My third principle and my final comment relates to the structure of the negotiation. We're in a world that has moved far beyond the NAFTA-era focus on goods trade. The joint study notes that the structure of our existing trade is largely complementary. In theory, then, this means there's little need for trade-liberalizing negotiations, since the two are not head-to-head competitors. But with the world economy now organizing into global supply chains, Canada's economic future relies increasingly on achieving high-value-added positions in those supply chains. Thus, the negotiations should explore the possibilities for promoting more intra-industry trade in which Canada and Japan exchange different components, materials, and services in the same industries.

The EPA should be a 21st century agreement, in that it includes trade, investment, goods and services, and relies on a mutual willingness of both partners to adjust to the realities of the 21st century and accord each partner opportunities to compete on a level playing field with other preferential trade partners of the two negotiating parties.

Thank you.

• (1200)

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

We have been joined by James Stanford, an economist from the Canadian Auto Workers Union.

James, the floor is yours.

**Dr. James Stanford (Economist, Canadian Auto Workers Union):** Thank you, Mr. Chair.

Good afternoon, everyone.

Thank you for the opportunity to meet with your committee by video conference from Toronto. I see that it's blue sky behind me. Rest assured that it's not blue sky in real life. That's a backdrop to make Toronto look pleasant, which is a high task.

I would like to start by making a few comments about the positioning and the context of this set of negotiations with Japan. They are being done in the middle of what is clearly a broader strategy on the part of our federal government, which is a multi-faceted push to sign many trade agreements with partners large and small.

In addition to carefully reviewing the features of each of those particular agreements, I think the general merits of the overall strategy of signing free trade agreements also must be evaluated.

I recognize that Canada's performance in international merchandise trade has been disappointing in recent years. Our overall level of exports has been weak. It's lower, in absolute terms, than it was before the global financial crisis of 2008-09. It's much lower, as a share of our GDP, than it was a decade ago. Measured by the ratio of exports to GDP, Canada's economy is in fact de-globalizing, because the importance of exports in our overall demand portfolio is shrinking.

In addition to the quantity of exports, the composition of our exports has shifted in what I consider a regressive direction. We've become much more dependent on the extraction and export of resources—unprocessed or barely processed resources—than at any time in past decades. At present, close to two-thirds of our exports consist of unprocessed or barely processed resources, compared to well under half of our exports at the turn of the century.

On top of all that, our overall trade balance has deteriorated. We now experience a large and chronic deficit on our current international payments that's equivalent to around 3% of GDP. That's a significant drain on our income and employment opportunities and represents growing indebtedness to the rest of the world.

I do not believe that signing more free trade agreements, either with Japan or with other partners, will alter this trajectory in our favour. In fact, I think more free trade agreements will make those problems worse. In practice, bilateral trade liberalization has tended to increase imports into Canada more than our exports from Canada, and this is for a number of reasons.

In general, Canadian tariffs, on a trade-weighted basis, were generally larger than those of the trading partners we negotiated free trade agreements with. Therefore, bilateral liberalization gave a bigger boost to imports than to exports.

Second, in most cases we started from a trade deficit position. Even if there was equivalent liberalization on the two sides, that would still translate into a larger absolute boost for our imports over our exports.

Finally, structurally, Canadian-based companies have proven less capable of expanding into markets for high-value, innovative products than our competitors in Europe, Asia, or even America.

I've arranged for a table to be distributed to the members of the committee, in English and French, that summarizes research I've done on the impact of bilateral free trade agreements on our exports, our imports, and our trade balances. I'll just briefly refer to that table.

The top part of the table shows the proportionate increase, on an annualized basis, in our exports and imports with the five countries

we had longstanding trade agreements with when I performed this research. First of all, you see that our imports from our free trade partners grew much faster than our exports to our free trade partners. Moreover, our imports from free trade partners grew faster than our imports from the rest of the world. That might be expected, but our exports to free trade partners grew more slowly than our exports to the rest of the world.

The lower part of the table summarizes the impact on the bilateral trade balance in each of those five cases, measured as a proportion of Canadian GDP. In four of the five cases, and on a cumulative total basis, the trade balance deteriorated against Canada by a combined total of about a third of a point of GDP.

So by both approaches, the proportionate growth in exports and imports and the impact on our net trade balance, free trade agreements have hurt our trade performance, not helped it.

In terms of the composition of our trade, I think free trade agreements have also reinforced a tendency for Canada to export resources and import more technically sophisticated value-added products. I view this as a losing proposition for Canada in the long run. And as was just mentioned by the previous witness, our bilateral trade with Japan very much conforms to that pattern. It is what I would call structural under-development in our export relationships.

● (1205)

The true reasons for Canada's poor trade performance do not have to do with a lack of free trade agreements, or even the existence of trade barriers in our trading partners. I think it is a failure of Canadian-based companies to develop and sell innovative, high-value products and services the rest of the world wants to pay good prices for. That's a structural weakness in our economy that will not be helped by signing free trade agreements, and I think it could be harmed by it.

Other countries in the world that are successful exporters to date—places like Germany, Scandinavia, Korea, Brazil, and China—have not built their success by signing as many free trade agreements as possible. Rather, they have focused on developing and nurturing domestically based, globally oriented companies that can sell things the rest of the world wants. That's where I think Canada's policy should be directed, instead of trying to sign as many free trade agreements as possible.

The current structure of our bilateral trade with Japan, as I mentioned, very much reflects both the quantitative and the qualitative imbalances in our overall trade performance. We have experienced a significant trade deficit with Japan every year for decades. Chronically, we import more from Japan than we export there. In a demand-constrained world where unemployment exists, this means we lose jobs as a result of our bilateral trade. By our research, we estimate about 25,000 Canadian jobs lost as a result of the bilateral chronic trade deficit. This is consistent with Japan's traditional strategy of promoting ongoing trade surpluses and export-led growth.

Of course the tsunami and some of the other changes in Japan have impacted that policy in the short run, but Japan's long-run strategy is very much still consistent with the effort to export on a net basis, and thereby support domestic jobs and incomes. That's very different from the traditional model of mutual specialization and balanced trade that is built into traditional economic models of free trade. This can work for countries. Japan has used it effectively, as well as Germany, Korea, and China today. But there's a flip side of the coin for the partner countries who maintain trade deficits as a result of those surpluses.

The Japanese success in generating ongoing trade surpluses reflects deliberate policy strategies involving the whole tool kit of proactive industrial policy that has been a feature of Japanese industrial development since World War II. Japan's economy has not functioned structurally like a traditional liberal, market-oriented, Anglo-Saxon economy, and the impacts of trade liberalization will be very different in the case of Japan as a result.

Our trade with Japan is unbalanced qualitatively as well. Some 99% of our imports from Japan consist of manufactured products, generally very sophisticated technology-intensive products. Most of our exports to Japan, as has already been noted, consist of resource-based products. The gains from trade liberalization on those exports are going to be modest, because Japan, quite sensibly, does not generally charge large tariffs on its imports of raw materials, again with the exception of agriculture.

Let me make a few comments regarding our automotive trade with Japan. That's of special interest to my organization, of course, and auto is still Canada's second-largest export industry and a crucial source of our prosperity.

Japan's exports of automotive products have been a centrepiece of their overall strategy of export-led growth. That has worked with Canada as well. They sold over \$5 billion in automotive products to Canada last year, despite the tsunami and the associated supply disruptions. In return, Canada exported only \$37 million worth of automotive products in the other direction. That is an imbalance of 137 to one, one of the most unbalanced auto trade relationships you will see anywhere in the world. Our auto exports to Japan have never been large, but they have been declining sharply. They have fallen by over 80% since 1999. So Japan's automotive market, effectively closed since the war, has actually become effectively more closed in recent years, and our almost non-existent exports to Japan have actually shrunk.

This is not the result of tariffs or other explicit trade barriers. In fact, Japan charges no tariff at all on imports of finished vehicles, so

a free trade agreement is not going to change that imbalance. How do we explain the lopsided nature of automotive trade with Japan? A range of structural factors are clearly at play, including the aging demographic makeup of Japanese society, falling automotive purchases, stagnant incomes in recent years, consumer tastes for vehicles that are not always like the ones we make in North America, and of course the structural impact of regulations, marketing practices, and other non-tariff barriers that are very hard to identify and, I would argue, impossible to credibly eliminate.

• (1210)

It's not realistic for me to understand any scenario in which a free trade agreement with Japan would generate benefits for our auto industry. I suspect that in the wake of a free trade agreement we would see a widening of the bilateral auto trade imbalance to the order of \$7 billion to \$8 billion, instead of \$5 billion, and tens of thousands of lost jobs as a result.

My recommendation would be to exclude the auto sector entirely from any free trade negotiations with Japan, if in fact those negotiations were deemed worthwhile to pursue at all.

Finally, I just make note to the committee that I've referred some previously published research to your clerk: a couple of articles on the structural features of Japan's economy, the history of state-directed industrialization in Japan and other East Asian economies, and more details on the impact on our employment situation of our unbalanced trade with Japan today.

I'll leave it at that.

Thank you for your attention, and I look forward to your questions and discussion.

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

We'll move right into questions and answers.

Mr. Davies, seven minutes.

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

Mr. Stanford, thank you for your testimony. I want to pick up on a few points you raised.

We had a presentation from the Canadian Manufacturers & Exporters association, who actually generally support a free trade agreement with Japan. Their material to us confirmed much of what you've said about the imbalance in raw resources that Canada exports versus the finished value-added goods we import.

They identified that the top five exports of Canada to Japan are coal, canola, copper, lumber, and pork. Those account for 58% of our exports to Japan, whereas autos, auto parts, heavy equipment such as bulldozers, printing equipment, tires, aerospace parts, and telecommunications equipment are Japan's top seven exports to Canada, and that accounts for 52% of our imports. They identified that we have an \$8.2-billion trade deficit with Japan on manufactured goods, and I've noted that Canada's trade deficit in manufactured goods overall was about \$17 billion in 2005 and it's approaching \$80 billion today.

The manufacturers association also stated that they're concerned that an agreement could exacerbate our trade deficit on manufactured goods, but somewhat paradoxically they say it's therefore critical that an EPA with Japan provide a net benefit to manufacturers and exporters by providing open-ended reciprocal market access. They pointed out that some of the barriers to trade and investment are structural in nature, as I think you've pointed out. They said, "so one can question to what extent these issues can be effectively dealt with through a bilateral trade agreement".

You pointed out, Mr. Stanford, that you can't divorce trade from an industrial policy. It's not just whether we trade, it's what we trade with other countries. You've stated that Canada needs to develop globally oriented companies, and you said that federal policy could be tied to that.

What federal policies would you like to see that would help Canada develop those kinds of domestic companies that could actually export value-added items, not just raw resources?

• (1215)

**Dr. James Stanford:** That's a very important question, which cuts to the centre of why Canada's trade performance has been so disappointing in recent years, even though we have accelerated considerably our extraction and export of our raw resources.

First of all, in terms of the Canadian Manufacturers & Exporters' position that a free trade agreement must offer a net benefit to Canadian manufacturing, it's very hard, again, in manufacturing as a whole—as I indicated for the auto sector—to imagine how that might happen. Our overall trade imbalance with Japan in manufactured goods is about 3:1, so we import \$3 for every \$1 we export there. That means that for any bilateral liberalization on the two sides, without explicit conditions that they must be buying more from us as a condition of the free trade agreement—which runs against the philosophy of NAFTA-style free trade agreements, anyway—it is virtually impossible to imagine how our exports of manufactured goods to Japan could increase under a free trade agreement faster than our imports from Japan. And I don't expect that any of the computable general equilibrium models and other simulation tools that are used to estimate these things could credibly project a net benefit under any circumstances to Canadian manufacturing. So if that's the test, I can't see how this agreement would pass it.

On your question with regard to what sorts of policies should be implemented, there is no magic bullet to this. If we look at the experience of other successful exporters in the world—as I mentioned, Germany, Japan, Korea, Brazil today, Scandinavia—we'll see they've all involved a range of proactive interventions

involving government, business, and other stakeholders, running the gamut between technology and innovation policy, directed flows of capital into particular strategic industries, proactive integration of training efforts with the needs of innovative export-oriented businesses, protection and support and nurturing for domestically based companies to produce high-value products.

My organization, the CAW, has recently released a major strategy document regarding the sort of policy we think would help in the auto sector. It lists ten different specific recommendations that I'd be pleased, again, to forward to your committee.

**Mr. Don Davies:** Would you please do that?

**Dr. James Stanford:** Yes, certainly.

That's kind of an example of the sorts of policy tools that are available and that should be applied to all our global champion industries, whether they are auto, aerospace, biotech, pharmaceuticals, or any other high-value sectors where we can succeed in global markets. But it won't happen automatically by market forces. Even in a free trade setting, it does require proactive government policy leadership for that to happen, in my view.

**Mr. Don Davies:** Thanks, Mr. Stanford.

There are a lot of figures thrown out about the putative benefits of free trade agreements. The government will throw out that a certain agreement will result in so many billion dollars of GDP growth or so many jobs. Some of those economic models have some relatively curious underlying assumptions. In the context of this study, some of the assumptions include full employment in both countries, full implementation of the GATT agreement, and other such factors that of course are simply unrealistic—in fact, they are wrong.

I'm just wondering if you have any comments about the economic modelling that is used to help us evaluate whether a particular free trade agreement would be positive or negative for our economy.

• (1220)

**Dr. James Stanford:** Yes.

It is kind of standard practice now for governments that are negotiating free trade to commission an economic study, as was done in the Canada-Japan case, based on the use of what's called computable general equilibrium models, or CGE, which is the acronym in economics. I actually worked with CGE models in my doctoral dissertation, so I'm one of a handful of Canadians who can actually understand how those things work.

In essence, the model is a set of mathematical equations. Each equation is intended to capture mathematically an assumed relationship between different industries, supply and demand forces, and so on. What happens is these modellers will take a CGE model, calibrate it to describe a certain set of data, and then shock the model to simulate the impacts of a reduction in tariffs or other trade barriers, and then the resulting change in the model's solution is held to represent the benefits resulting from the free trade agreement.

You're quite right, Mr. Davies, to highlight that. What comes out of the model is only as good as what goes into the model, in the sense of the assumptions and relationships that are built into the model's equations. Almost without fail, the CGE models incorporate the assumption of full employment, which is that no one can be laid off, the assumption of no capital mobility, which is that capital cannot flee a country looking for a lower-cost-of-production jurisdiction, no impact from exchange rates or other nominal variables, and they usually assume—

**The Chair:** I'm going to have to stop you there, Mr. Stanford.

**Dr. James Stanford:** Oh, I'm sorry.

**The Chair:** We'll maybe pick it up in the next questioner.

Mr. Cannan, the floor is yours for seven minutes.

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

I agree that when you're looking at economic forecasting, there's no perfect modelling, but as an economist, Mr. Stanford, we can appreciate that it's your educated guess in many cases, using the best information available. Following up on Mr. Davies' comments, have you had a chance to look at the CGE model specific to the economic analysis for this economic partnership agreement with Japan?

**Dr. James Stanford:** I did look at the section of the joint study that very briefly summarized findings of the CGE modelling done on both sides, some in Japan, and some in Canada. Then they developed a range of estimates, like other CGE models of a trade agreement, based on the assumption of full employment and the maintenance of full employment. In essence, this forces a positive result, because when you make that assumption, everyone in the country is going to be employed after a free trade agreement, and market forces will ensure that they're doing something relatively more productive, just as is assumed in the traditional comparative advantage model of free trade.

The problem, of course, is that the full employment assumption and the representative household assumption, which also assumes that every Canadian will share equally in the gains and losses from a free trade agreement, are completely invalid in the real world economy. What really happens with a trade agreement in the real world is that if your net exports increase, if you sell more than you import, then you will get benefits, not just from mutual specialization, but from more output and more employment. If the reverse happens, then you'll get net losses. So either can happen. It depends on the competitiveness of your country's products, and the relative impacts of the trade liberalization on the two sides.

The conclusion of that joint report with the simulations of the CGE models, which were not fully documented there.... I would have to see more detail on how the models were actually specified,

but I do not accept them as credible. In fact, I have written a scholarly article, which I've referred to your clerk, detailing the way CGE models are completely dependent on those unrealistic assumptions and proposing what I would view as more relevant and more reliable methodologies for estimating the impact of trade liberalization on employment, income, and investment.

**Mr. Ron Cannan:** Thanks. It sounds like a perfect job for an economist, because you're never wrong; you cover your bases both ways.

**Dr. James Stanford:** You know what they say: an economist always has two arms, because we always say "on the one hand" and "on the other hand".

**Mr. Ron Cannan:** Well, on this arm of the body in government, we are very supportive of trade. One in five Canadian jobs is based on trade, 60% of our GDP, and this economic analysis of about \$3 billion, the economic opportunities for growing trade up to two thirds, a 67% increase as well with Japan.

We're focusing on jobs and growing the economy and long-term prosperity. Our goal is to incorporate innovation and technology as much as we can. We're also very blessed to have so many resources. We're working hand in glove in that respect.

Going with the automotive industry, I've met with several different automotive industry representatives and we've had representatives to the committee, and they say that the Canadian auto industry hasn't even shown up at the auto shows in the last several years. I'm wondering what's wrong with the Canadian auto industry for designing.... Why wouldn't they consider that huge market to look at? If you're saying you're so competitive and innovative and we can compete globally, why wouldn't we at least look at modelling for that large market share? Do we just not feel that we can compete with the Japanese?

● (1225)

**Dr. James Stanford:** When you say "Canada's auto industry" in a global setting like that, you're referring to other global companies that are actually not based in Canada. It would be the decision of companies that manufacture in Canada, like General Motors, Ford, Chrysler, Toyota, Honda—the five global companies that manufacture light vehicles in Canada—to show up at the shows and show their new products.

One of the structural weaknesses even of our auto industry, which is a rare example in Canada's case of a high-value-added, innovation-intensive industry that has succeeded here, is that we are 100% dependent on foreign investment, on companies that came here and established branch plants. Those branch plants are important, but it does mean for our overall economy that we don't have the full capacity to undertake innovation development of new products and so on.

I can't comment on why the companies wouldn't put up booths at those trade shows. It could be that they don't see any significant opportunities for selling their product in Japan. Remember, Japan has an effectively closed auto market. It's difficult to identify precisely why that is—how much of it is due to government regulations, non-tariff barriers, restrictions on the establishment of dealerships and other marketing, and how much of it is perhaps due to a nationalistic or patriotic mentality on the part of Japanese consumers, who won't consider imported products.

**Mr. Ron Cannan:** Thanks.

**Dr. James Stanford:** Whatever it is, the fact is that we don't sell anything there.

**Mr. Ron Cannan:** Thank you very much.

I just wanted to put a quick question to Mr. Trew.

Thank you very much for coming to our committee again.

In the past, the Council of Canadians never supported any trade agreement for Canada. I'm wondering if your association or your members are taking the same position with Japan, and urging the NDP not to support this. We seem to see some support coming from the NDP wanting to encourage trade. I'm hoping we can work together, because, as I said before, this is a great opportunity to expand not only to Japan, but to the TPP initiative.

**Mr. Stuart Trew:** Thanks very much.

Yes, we do oppose the free trade model, and we will continue to do so, which is why I came here today to kind of potentially outline some ideas of rethinking how we're negotiating these agreements or whether we would need them at all.

I don't think I can say much more than that. We oppose them on the grounds that they give more rights to corporations than they do to other areas that are important to us, such as environmental protections or labour rights. These agreements are essentially corporate bills of rights, and as long as they look the way they have over the past series of them from this government and previous governments, we will continue to oppose them.

**Mr. Ron Cannan:** I have one quick question.

**The Chair:** Make it very quick.

**Mr. Ron Cannan:** Ms. Dobson, in your perspective of our trade agenda from working in Japan, do you think it's a gateway for TPP, the Trans-Pacific Partnership?

**Dr. Wendy Dobson:** As I said, both countries are *demandeurs* at the TPP. The other nine look at our behaviour. The reason that the Japan-Australia agreement is so hard to strike is partly because of the Japanese reticence, particularly in agriculture, which nobody else has mentioned this morning.

I would use this opportunity to comment that you can hardly think of two countries with more differing comparative advantage. This is a term that has not been used this morning, but it is a determinant of your success in trade. Canada's comparative advantage lies in natural resources and energy, unless we work with judicious policies, some of which have been outlined by Mr. Stanford. When I listened to him, it reminded me of Canada's innovation strategy.

It is not as if we're not doing some of these things. I'm glad to hear that we're not talking about going back to the industrial policies of the 1970s and 1980s, where it was obvious that governments could not—

• (1230)

**The Chair:** Ms. Dobson, our time has gone for this questioner, but it may be picked up in the next one.

Mr. Easter, you have seven minutes.

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

I thank all the witnesses for their presentations.

I'll start with you, Ms. Dobson. First, I'll certainly give you time to finish your line of thought on that last question.

Second, you did indicate that Australia and Japan have been negotiating for five years. I think you kind of insinuated that the sticky point was the agricultural side of the equation and completely different attitudes towards agriculture in Japan versus wide-open markets in Australia. I'm wondering on that point related to agriculture, agriculture production and exports, whether or not Japan's attitude in that area makes it more beneficial to our agricultural industry or less. Where do you think that will go?

**Dr. Wendy Dobson:** I have no idea. It will be revealed in the negotiations. It's very hard to discern from the joint study.

You know, they use language, which I'm sure comes from Japan, about being sensitive to each other's concerns, but that language turns up in reports of the Australian discussions as well. So I would fully expect....

First of all, coming back to CGE modelling—whatever its flaws are—the joint study reveals very small benefits, so let's look at the magnitude of the benefits relative to the effort.

My concern, coming back to the previous questioner, is that TPP may not happen, but it might, and we will be in a very, very difficult position if we're left out of it.

I see these negotiations as not producing a heck of a lot of liberalization, partly because of politics in Japan probably for the next several years, but the strategic dimension of being willing to talk about everything is not lost on everybody else who's already involved in the TPP.

I listened to some of the counsel from the other two contributors: Who do we think we are? We're far too inward-looking. We're not thinking about this in terms of a larger strategic gain.

**Hon. Wayne Easter:** Thank you.

I appreciate the paper you've given us on the numbers in the five regional trade zones. I would like to see your other document as well. I think Don asked for that, so we'd like you to forward that to us.

It seems to me, from what you said, that in Canada we're always... On free trade discussions, there seems to be a segment that believes we need to negotiate free trade agreements just to have the agreements. The government has been very good at outlining the numbers of trade agreements that it has either signed or that are in the works. I did an analysis of the agreements. What I worry about is that we're falling behind in the Korean market, and we're continuing to fall behind even in the U.S. market. All the new agreements they've signed add up to about 126 and a half hours' worth of trade with the United States on the merchandise side.

So it's not exactly what it seems when you talk about the numbers. Your facts seem to show us that we're more hewers of wood and drawers of water than we've ever been. Free trade was supposed to solve this.

I want to really come to your point on what you called the "structural" underdevelopment. What needs to be done in terms of getting us to value added, trade agreements or no trade agreements? How do we as a country, whether it's an industrial strategy or whatever, do better by these trade agreements—with or without them?

• (1235)

**Dr. James Stanford:** Again, I think that's a crucial question to the future prosperity of our country, because the problem with being a hewer of wood and a drawer of water and a scraper of bitumen—I guess that would be the extra phrase to add to it today—is that the resources run out, world prices are very unreliable, and you're missing the job and productivity benefits of adding value to those resources.

It was mentioned that in our current trade with Japan, coal is one of our largest exports and automobiles are our largest import. How many tonnes of coal do we have to dig out and ship to the coast and transport across the Pacific Ocean to pay for just one of those vehicles that comes the other way? That is just a losing proposition for our country. And in terms of the theory of comparative advantage, the Japanese never let that stop them.

What is the comparative advantage of the Japanese? Do they actually have a natural advantage in producing high-technology, high-value, innovative, technologically sophisticated products? That's not a comparative advantage. In fact, they looked around their island and said, "We don't have easily extractable, highly profitable resources. We had better do something else as a country." And proactive industrial strategy, starting with the work of MITI in the initial post-war decades and continuing today in various forms, has been crucial to Japan's success.

I think we need to emulate the range of tools that has been used by Japan, by Korea, by Brazil, by Germany, by Finland. Finland is a country that has a lot of resources but doesn't limit itself to extracting them and exporting them. They have higher aims in terms of the higher-value-added products and services that they sell. It requires government tools in the area of technology, innovation, skills and training, partnering with universities and research stakeholders. It also means helping to create markets for the products that we want to sell, by using domestic procurement as an active tool, as the Asians and Europeans have done so well.

On the whole set of tools, what was traditionally called industrial policy, I would call that sector development strategies today. It's what we have to be looking at, but the tradition in Canada in recent years has not been to do that.

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

Mr. Holder.

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

I'd like to share my time with Mr. Shory.

Mr. Trew made a comment, and probably, with deep respect, the one thing I can agree with in what he said is that because we're so early in the stages of discussing Japan, which makes it unique among some of the deals we've discussed, we have some opportunities to influence the direction it's going in. So on that, we are in violent agreement, as we say. And with respect to much of what else you've said, you'll forgive me, but perhaps we'll take a different view. Your position is assumed, because if there's anything the Council of Canadians has been, it has been exceptionally predictable. You might view that as strength; I have another view of it, but I respect that you have your view.

I'd like to hear more, if I might, from Ms. Dobson with respect to Canada-Japan versus say Canada-TPP. I love your candour. In fact, I appreciate the candour of all of our guests today, but you made a comment that it would be very difficult if Canada is left out of the TPP. We've taken the position that Canada and the TPP, certainly, but if not the TPP, at least Japan, because it is a process. But what are the implications from your standpoint, Ms. Dobson, if Canada is left out of the TPP? Why is it so critical for our country?

**Dr. Wendy Dobson:** If it happens, first of all it will be the U.S. and the most progressive economic units in Asia. It's not clear that it will not include China at some point in the future.

It will only include Japan if they are willing to talk about everything. So I don't see Canada-Japan as an alternative to TPP. We would have to do bilateral trade agreements with all the members of the TPP, which would be a double-digit number of countries, possibly including China. I don't think we have the resources to do that. It doesn't make any tactical sense to proceed that way.

As I said earlier, I don't expect huge returns from this effort with the Japanese. It will not be a free trade agreement. It will not qualify for the TPP if we behave in ways that we have in the past, insisting, as we did with the Koreans, to accept certain sectors before the negotiations even began. The Japanese, as I say....

That's one of my big questions: what do the joint study people know that we don't? You should find that out. Are there exceptions? Is there talk about exceptions? If there are, then basically as a strategic alternative to the TPP, I don't give it very high marks.

• (1240)

**Mr. Ed Holder:** I'd like you to elaborate on comments you made in response to comments made from our other guests. When you talked about Canada, you said, who do we think we are? I might draw a conclusion from that, but what specifically were you inferring?

**Dr. Wendy Dobson:** I go back to the comment I made in my prepared remarks, where Canada is late to the region. We were there decades ago and then we have been absent. We have developed a reputation in the region for turning up and then not following through.

I would say that some of the concerns that Mr. Stanford has raised about the lack of ambition by Canadian businesses helps to explain why we haven't followed through. It's not everybody. There are major Canadian companies that have major positions in Asia, which they've worked to develop over many years. My concern is that we are so inward-looking in this country that there's a conceit about what others should do in response to us, and we have made what I think are unreasonable demands, given the size of our economy and the sources of our comparative advantage. I would agree with Mr. Stanford: we have what I would say is substantial activity now by governments and by business to deal with the deficits, not just in ambition, but in innovation and nurturing Canadian companies to be more competitive internationally.

Let me just add one final point. When I think back to the free trade agreement with the U.S., one of the remarkable things about the negotiation was that long before the agreement was even finished, what I saw in Canadian businesses were strategies that became North American strategies. That's what I see in a number of businesses and elsewhere—in governments in Canada now. It seems to be related to the Prime Minister going to China. I would say there is now a flowering of interest and concern and ambition to be more successful in Asia. That is quite remarkable, and it's less than a year old. So I think we're at the beginning of a process.

• (1245)

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

Mr. Davies, you have five minutes.

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

Mr. Trew, I'd like to follow up with you a little bit on the investor-state provisions. I notice that Australia and India are two countries that have recently changed their policies and they no longer table investor-state provisions as part of their negotiations package.

My understanding of investor-state provisions is that the theory is that they are required when you're negotiating an agreement with a country that does not have a mature judiciary system or a sufficiently solid rule of law or legal climate to give assurance to companies doing business there that they won't have their businesses unfairly expropriated, etc.

When you're talking about a trade agreement with a mature democracy like Japan, which obviously has a fully functioning, mature judiciary, what would be your advice about whether or not we need an investor-state provision, and the wisdom of tabling such in any negotiations with Japan?

**Mr. Stuart Trew:** Just briefly, I would recommend, as I did in the presentation, that there is no need for it. This was the original intent in NAFTA chapter 11, which was that in Mexico, where the legal situation was not the same as it was in the United States and Canada, perhaps this would be a benefit for Canadian corporations, and perhaps it would encourage them to invest in Mexico if they had these assurances. They would have a means outside of Mexican courts with which to assert their rights as they would see them under the negotiations.

But what we've found over the last little while, over the last five years, is that increasingly companies are using this process in ways that weren't intended. This was the summary of the UNCTAD report that came out a couple months ago, that this is something that really does need to be looked at, and maybe at the very least we should be going back to what was the original intent of investor-state protections in the trade agreements and how they have gotten out of hand. So Canadian firms frequently do now use this to challenge decisions, whether it's in America or Ecuador. We've had some feedback challenges under way related to resource extraction there and certain decisions by local governments.

The El Salvador case with Pacific Rim is another one where a Canadian firm went treaty-shopping and moved a subsidiary into Nevada so it could use the CAFTA, the Central American Free Trade Agreement, to sue the government of El Salvador for \$77 million—which is 1% of the country's GDP—simply because Pacific Rim can't get a mine started because of impacts that mine would have on water and other human rights in the country.

In the Japanese case, I'm not sure if it's something Canada would even consider. Maybe this committee could bring it up that we don't need to go in that direction.

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

Mr. Stanford, I want to talk about process and the negative list approach to negotiations. I know you work for a labour union, so you must be intimately familiar with negotiations. My understanding is that Canada is almost alone in the world in tabling this approach of a negative list to free trade. They've done that in CETA, where they essentially sit down and say that everything is open to free trade and non-tariff trade except as they may explicitly stipulate in the agreement. That's as opposed to a positive list approach, where companies will sit down at a table and carefully go through each sector, good, or service and discuss them.

I have to say that to me it seems a relatively dangerous way to negotiate, since I can't predict, and I don't think anybody can predict, what goods or services are going to be created five, ten, fifteen, or twenty years from now. We just have to look at something like the computer chip. Twenty years ago nobody could have envisioned what that would do.

So I just wonder if you have any comment on the prudence of a negative list approach to sitting down at a trade table.

**Dr. James Stanford:** I think the negative list approach reflects a higher degree of faith in the assumed efficiency and mutuality of a free trade agreement. If you start from the assumption, as is embodied in those economic simulation models, that free trade will naturally benefit both sides through the automatic workings of market forces, then the negative list approach would seem to make sense. Because if you believe that, then you want the treaty to cover as much ground as possible. I don't think that faith is justified, because the assumptions that go into that approach are not valid.

Let me emphasize clearly, I am absolutely in favour of trade. I view trade as crucial to Canada's prosperity and to the future success of the high-value industries I've been talking about. They cannot exist without trade. But in order to promote our trade I think we need to be more deliberate and strategic in identifying the areas of opening that will benefit Canadian-based companies and Canadian-based industries.

• (1250)

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

We'll now move to our last questioner and then leave a few minutes for future business.

Mr. Shipley, the floor is yours.

**Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC):** I have just a quick one. I know we have to wrap up here fairly quickly.

Mr. Stanford, one of the things you mentioned right at the end was that you should exclude the auto industry from any of the negotiations. Are you actually saying that the auto industry should be out because you can't compete, and that there should be pre-negotiations on a trade agreement?

**Dr. James Stanford:** That there should be what negotiations? I'm sorry, I missed the second part.

**Mr. Bev Shipley:** Are you saying that there should be pre-negotiations on what's in and what's out prior to discussions? Because that's really what I interpreted it as.

**Dr. James Stanford:** The auto—

**Mr. Bev Shipley:** It's the two things.

**Dr. James Stanford:** As far pre-negotiations go, I don't know if it's something you pre-negotiate or if it's just something you say. You say to another country, "I may be interested in a free trade agreement with you, but not in the area of auto". That's not necessarily something you have to negotiate. That's simply stating what you think your area of interest is.

In terms of the first part of your question on the auto industry, is it a question that the industry "can't compete", that means that no auto

industry in the world can compete with Japan, because Japan doesn't buy significant volumes of automotive products from anywhere in the world. I think viewing a trade imbalance solely as a result of a failure to compete is not very informative.

What you have in Japan is a whole structure and a history of policies aimed deliberately at promoting exports and limiting imports. That's why we have a trade imbalance with them, and that is not going to be solved by a free trade agreement.

**Mr. Bev Shipley:** I want to go to Madam Dobson. You talked about the significance of a number of things, and you talked also about the 2012....

Thank you for the little bit of a background in which you took us back to 1986 and took us back up to 1999 on the strength of the Japan-Canada relationships.

At that time, if I understood it—and I just want to actually make sure I heard you right—it was said in some of those discussions that by 2010, because of what you've called sort of this natural working relationship or economies with Japan.... And now it's 2012, so we're two years late and we missed it by two years because actions weren't taken.

Can you help us understand why actions weren't taken ahead of now? I know we've tried to move forward, but has there been something political on the Japanese side that has held that up?

**Dr. Wendy Dobson:** Well, if you think about what's been going on in Japan for the last two decades, it's been stagnating economically and it's had a few prime ministers—

**Mr. Bev Shipley:** They've just gone through a terrible time.

**Dr. Wendy Dobson:** —and now it's trying to recover from a triple whammy of indescribable proportions. It has had one or two prime ministers who've actually gotten some things done in terms of trying to restructure parts of the Japanese economy that are sources of considerable weakness and that have been protected in the past. But on the whole, political leadership in Japan has been, I would say, increasingly pre-occupied with points scoring rather than governance.

**Mr. Bev Shipley:** Okay.

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

I know we didn't have as much time as we would have liked with all the witnesses before the committee, and we reserve the right to maybe call you back at a future date if we want more opportunity to ask questions, because I think the committee found it very interesting.

Thank you to Mr. Trew, Ms. Dobson, and Mr. Stanford for your time here.

We have to suspend the committee and move in camera very quickly for a very short business session. So thank you very much for your time.

With that, we'll suspend.

*[Proceedings continue in camera]*







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