



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on International Trade

CIIT • NUMBER 075 • 1st SESSION • 41st PARLIAMENT

EVIDENCE

Wednesday, May 1, 2013

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Chair

The Honourable Rob Merrifield

Standing Committee on International Trade

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• (1530)

[English]

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

This is our last scheduled day of testimony with regard to the Pacific Alliance, as to whether Canada should be a full member or stay as observer status. We're concluding this part of the study today.

We have with us today, in the first hour, the Canadian Environmental Law Association and Pulse Canada. We want to thank our witnesses for coming forward.

Before I give you the floor and we hear your presentations, I just want to make reference to our last meeting.

There was testimony by Ms. Katz, I believe it was. We had sent around information with regard to monthly and hourly salaries between Mexico and China. The information we got was considerably different. I've asked Alex to inform the committee of the numbers he has because they're so radically different from what was in the testimony.

Mr. Alexandre Gauthier (Committee Researcher): At the last meeting, the witness referred to a study done by Merrill Lynch. In that study, it said the wage per hour in China was now higher than it was in Mexico.

I did some research, and based on the official data that we could find from the International Labour Organization, comparing private sector jobs, you have here a document that explains that the average wage per month in Mexico is \$507 Canadian, and in China it is \$263 Canadian.

What we will do is get in touch with Merrill Lynch to see if they can provide their methodology.

That's the best we could find in terms of data that is comparable between both countries.

The Chair: I think this was sent out to your offices. I just wanted to make reference to it here and let Alex have an opportunity to explain the difference in methodology, and why he came up with what he did and how, and follow it up with the Merrill Lynch study.

Hon. Wayne Easter (Malpeque, Lib.): I have one quick question on that, Rob. Could you also give us the comparable figure in Canada, when you're doing it; that is, Mexico, China, and Canada?

The Chair: I think it goes beyond the testimony. All I'm trying to do is clear up the testimony.

Hon. Wayne Easter: Yes, I know what you mean, but it would be just good, useful information.

The Chair: Fair enough. We will now move to testimony.

We have, as I said, from the Canadian Environmental Law Association, Theresa McClenaghan. From Pulse Canada, we have Gord Kurbis and Nick Sekulic.

I'm not sure, Gord, who is doing the presentation.

Mr. Gord Kurbis (Director, Market Access and Trade Policy, Pulse Canada): We'll split it. Nick will introduce it.

The Chair: You're going to split it. Very good.

The floor is yours, sir.

Mr. Nick Sekulic (Chair of the Board, Pulse Canada): Mr. Chairman and committee members, thank you for the opportunity for Pulse Canada to speak to the committee today.

I'll briefly introduce myself. I farm with my wife Caroline and our three children. We have about a 10,000-acre farming operation in the central Peace District of northwestern Alberta.

The Chair: It's a great place.

Mr. Nick Sekulic: Thank you.

We have a cattle operation in addition to field crop production, wheat, barley, canola, and peas, which is our primary pulse crop.

I have served on the Alberta Pulse Growers commission for six years now, entering my seventh year. I have been their representative on Pulse Canada for a number of years, and was most recently elected chair of the national organization.

Pulse Canada is a national industry association funded by the farmers who grow peas, lentils, beans, and chickpeas across Canada, as well as by the processing and exporting companies that export pulses to 160 countries around the world.

For more than 15 years, Pulse Canada has been focused on market access as one of the members' top priorities. Access to markets in a predictable and stable trading environment is a prerequisite to building an export-oriented resource economy for Canada.

We'd like to use our time to talk about the Canadian pulse and special crops industry's perspective on the Pacific Alliance and what may be possible to achieve in terms of enhanced regulatory harmonization with the countries involved.

Each of the member countries of the Pacific Alliance—Mexico, Colombia, Peru, and Chile—are among the Canadian pulse industry's top 20 importing countries. However, taken together, exports of Canadian pulse and special crops to the four countries are valued at \$148 million annually, equivalent to 206,000 tonnes per year. This is averaged over the years 2009 to 2012.

Measured as one, the four countries would represent the fifth largest export market for the Canadian pulse and special crops industry, equivalent to just under 8% of the value of Canada's total pulse crop export program.

Lentils are the most significant pulse and special crop export to the Pacific Alliance members, with average annual exports of 135,000 tonnes, or approximately 12% of Canada's annual lentil export volume. The primary competition is lentils of U.S. origin, although this is limited, as Canada is the dominant supplier of lentils worldwide, with more than 60% of the global trade.

Canada is also a significant supplier of dry peas and beans to the four countries, which is an important region that ranks behind only the U.S. and the EU in the case of dry beans, and in the case of peas, behind India, China, Bangladesh, and the EU.

The Canadian pulse industry is very supportive of the development of bilateral and multilateral trade agreements at the government-to-government level, because they provide the opportunity to create a more permanent and lasting trade policy framework that levels the playing field with other exporting nations. They also ensure that yearly fluctuations in domestic production are not met with yearly fluctuations in import or access policy. Predictable trade policy is a vital component of food security and, equally important, a vital component of affordable food.

The Pacific Alliance is an interesting opportunity from the Canadian pulse industry's perspective. On one hand, Canada has already negotiated free trade agreements with each of the four member countries, and these either address or are in the process of addressing most tariff, quota, and trade escalation issues.

Gordon.

• (1535)

Mr. Gord Kurbis: Mr. Chairman, committee members, I'd like to spend the rest of our time highlighting one emerging challenge that all commodity exports will increasingly face in the years to come, as current zero thresholds that are on the books in importing companies collide with analytical methods to test against those tolerances that have now ranged down into single parts per billion.

As you know, crop protection products—herbicides, fungicides, and insecticides—have been critical to improving agricultural productivity. Unfortunately, new crop protection products and their rapid adoption have challenged market access as importing countries could take years to establish legal tolerance for residue levels in grains, oilseeds, and pulses. This is further complicated as countries have zero or near zero default tolerances that apply when the country hasn't got around to setting a legal tolerance.

As an example, in 2011 the pulse industry had a high-profile glyphosate breach and MRL gap encountered on lentils to the EU. The issue was that Canadian farmers were using a crop protection

product—glyphosate or, by another name, Roundup—that was fully approved in Canada for use on the crops, and the residues within the exports were well within Canadian food safety standards. However, the EU had never gone to the process of establishing an MRL, or maximum residue limit, for glyphosate on lentils, and consequently applied a near zero default MRL of 0.1 parts per million. This caused rejections as well as product recalls from retail shelves, so it was quite significant. As you know, detection of pesticide residues, even when well below levels considered safe by the world's leading regulatory bodies, can create headlines that undermine the consumer perceptions of the safety of Canadian agrifood products.

I want to emphasize that all of this happened solely as a result of the lack of regulatory harmonization. I want to be clear to all committee members who may not be familiar with the policy and processes around the establishment of crop protection product tolerance levels. Canada is among the toughest regulators in the world when it comes to establishing safety margins, and the product pulled from EU retail shelves was easily compliant with Canadian standards. Underscoring that there was no food safety risk in this particular case was that EU regulators, after they consulted with their own health authorities, increased their default MRL, which was near zero at 0.1 parts per million, by a factor of 100, to 10 parts per million after the dust settled.

The pulse industry then did a lot of work to identify the extent of similar hidden risks across other products and markets where trade is at risk solely due to regulatory gaps and not food safety concerns. That analysis revealed that the value of trade at risk is approximately \$900 million for pulses and close to \$3 billion for the cereal crops and oilseed crops grown in rotation with pulses. This is categorized as markets that have one or more MRL gaps or missing MRLs.

The four countries of the Pacific Alliance each have a different process to establish MRLs, none of which is effectively aligned with each other's or Canada's. Mexico uses a combination of MRLs established by the U.S. and by the UN body Codex. Peru uses Codex exclusively. Chile has begun to develop its own MRL list as of 2010 but considers Codex and U.S. MRLs. Colombia is currently reviewing its MRL policy but has relied on Codex.

What does this mean for exporters in practical terms? Of the 19 crop protection products registered for and commonly used on lentils in Canada, Canada has MRLs for 19, Colombia has MRLs for 3, Peru for 5, Mexico for 17, and Chile for 6. The key issue is that because absent MRLs get interpreted as zero or near zero tolerances, shipments that are fully compliant with Canadian safety standards would be rejected by the importing country. This creates enormous uncertainty for trade. While the asynchrony between Canada and importing countries is not new, the potential for trade disruption is increasing as testing becomes less expensive, capable of detection at lower levels, and more prevalent in response to increasing consumer interest in food safety, driven by issues such as the EU horsemeat scandal.

The opportunity as we look ahead is to use FTA negotiations and all other multilateral forums to attain the commitment of importing countries toward regulatory harmonization of MRLs. This is occurring now within the TPP, of which three of the four Pacific Alliance countries, except for Colombia, are currently members.

The long-term solution is represented by a best practice currently used by Canada, the EU, the United States, and Australia, and increasingly Brazil, to improve the coherence of crop protection regulation by participating in OECD global joint reviews, which involves splitting the workload of pesticide evaluation among participating regulatory authorities, exchanging data, and peer reviews.

- (1540)

A short-term to medium-term solution is to establish interim MRLs, which could involve the importing country applying an MRL of the exporting country, or some other OECD-referenced country, according to internationally accepted processes. A precedent already exists. The UN World Food Programme uses as the importing country's MRL the MRL that is in place in the exporting country.

In closing, the pulse industry has also been working with other Canadian agriculture stakeholders to identify specific work that can be done by the Canadian industry to complement the work we are asking of government. Agriculture industry stakeholders understand the value of partnerships and are ready to work together to achieve measurable outcomes.

Thank you, Mr. Chairman and members of the committee.

The Chair: Thank you very much for your presentation. You've practised that one. You're within 10 seconds. We don't often get it that good.

We'll now move to the Canadian Environmental Law Association. We have Ms. McClenaghan.

The floor is yours, Madam.

Ms. Theresa McClenaghan (Executive Director and Counsel, Canadian Environmental Law Association): Thank you, Mr. Chairman.

Thank you for inviting me to attend and make comments to you. My name, as indicated, is Theresa McClenaghan. I'm the executive director of and counsel with the Canadian Environmental Law Association. We're a 43-year-old federally incorporated not-for-profit environmental NGO and an Ontario specialty legal aid clinic.

I will provide remarks in the hope that we can be of assistance in your study of the potential benefits of Canada joining the Pacific Alliance as a full member. I understand that the relatively recently formed Pacific Alliance's full members consist of Chile, Colombia, Peru, and Mexico, and Canada has been an observer since last November. I also understand there are now a number of other observers.

I have read with interest the transcripts of some of the committee's earlier studies and am somewhat familiar with the testimony you've heard.

I also searched for any information I could obtain with respect to the Pacific Alliance and its agreements to date. For example, I

obtained translated text of the Lima Declaration signed by the four member countries. The Lima Declaration, which is very high level, describes a process for the designated senior ministers in the four countries to work together to develop a framework agreement toward a deep integration area.

My focus will be on issues relating to environmental protection in the event of Canada joining the Pacific Alliance as a full member. My remarks will, in general, explore potential benefits and also potential risks. My remarks are very general because it's very early in the process, and of course, there are no specific agreements, as I understand it, or proposed language to which Canada would be bound that we could consider at this time. I will be drawing largely on CELA's prior work on environment and trade matters. We've spoken to this committee in the past, in earlier Parliaments, on some of those.

My primary question is the extent to which participation in the Pacific Alliance would improve both Canada's and the current four members' situations in terms of sustainability. For example, I noted that a witness from Canada's Department of Foreign Affairs and International Trade indicated that Canada is pursuing three pillars in terms of its engagement in the Americas. She outlined these as consisting of economic opportunity, strengthening security and institutions, and fostering lasting relationships.

I would strongly encourage the adoption of a fourth pillar, namely, pursuing sustainability and environmental stewardship.

Sustainability, as normally understood, includes pursuit of environmental, social, and economic goals to ensure we're not only meeting the needs of the present but also ensuring opportunities and resources for the needs of the future.

If this pillar of sustainability were explicitly added to Canada's engagement strategy for the Americas, there may be opportunities that would then be evident in further discussions. I want to be clear that I would see these opportunities as operating both in advancing and improving Canada's own pursuit of sustainability as well as in the Pacific Alliance member countries.

For example, with Canada extensively engaged in mining investment and activities in the Pacific Alliance countries, a question arises as to whether Canada's mining laws are adequate for strong protection of the environment and provision of strong labour, health, and safety rules both at home and abroad. We would want to see these areas improving wherever Canadian companies are operating.

Similar questions arise with respect to oil and gas operations. An opportunity could be created to improve Canada's reputation respecting environmental sustainability if the discussions were to provide a mechanism to develop and implement 21st century solutions whereby trade and investment are focused particularly on sustainable practices.

Those opportunities extend, for example, from research and development from academia, ENGOs, or environmental non-governmental organizations, governments, and the corporate sector, through to implementation of best practices. A necessary part of a sustainability approach is to keep track of whether the sustainability and environmental stewardship goals are being achieved versus whether negative impacts are occurring. There is a need for monitoring and enforcement. Equally important is to ensure that public participation and transparency in those frameworks are considered. I might add, I say that in the sense that those would need to be very seriously pursued. We often see the agreements talk about monitoring, enforcement, and transparency, and then when it comes to finding information, it can be quite difficult.

Examples of the types of inquiries that would need to be considered in analyzing a sustainability framework in this context are illuminated in the sustainability reports of the Inter-American Development Bank for Latin America and the Caribbean.

• (1545)

For instance, the bank's 2011 report outlined the challenges arising in that area from growing incomes and greater opportunities in that it becomes urgent to consider integrated approaches to energy, food, and water security—all are under pressure with those changes in their economic and social structure—and to ensure future supplies of all of these while not degrading the underlying environment on which those goods depend. Significant issues of sustainable agriculture, low carbon development, and sustainable resource extraction are just a few of the most obvious and urgent issues.

If Canada is increasing activity and investment in the regions, and if its activities are accelerating the pace of change and contributing to greater environmental stresses, then I would submit Canada is obligated to explicitly consider how to turn its actions into impacts, such as resource extraction, for example. It's imperative that this analysis be done very early in the process of considering further activity in the region. I would urge Canada to apply the lessons learned at home as well as in other areas of the world.

I noted that there had been a Pacific cooperation platform established by the members of the Pacific Alliance. This was stated to be the area where issues of environment, climate change, innovation, science, technology, social development, and educational institutions are being considered by the alliance in terms of further integration, but I haven't been able to find details on those discussions. I would suggest this would be an area for productive inquiry by the committee to ascertain the extent to which sustainability issues are already under discussion, if they are, and the extent to which Canada's full participation could advance sustainability.

Turning to the risks of participation, I will briefly mention some of those that have occurred in the various bilateral and regional trade agreements and I would urge the committee to consider them in your recommendations.

One issue of ongoing concern for us is the continued provision of investor rights in the agreements, as is the case with the currently existing bilateral agreements with all four members of the alliance countries. Our concern, as some of you may have heard me say before, is that the agreements provide the opportunity for non-

domestic investors to bring claims against our governments for regulatory action. We are of the view that this is not appropriate. It's couched under the term of expropriation or indirect expropriation. In our view, if there is a claim of true expropriation as understood by our well-developed court system, then it should proceed under our domestic legal system in the way that our nationals would proceed.

Another concern is the frequent aim in the agreements to pursue harmonization of standards. This is often framed in terms of efficiency. Our concern is that we want all of our governments to be free to pursue strongly protective environmental, labour, occupational safety, and health standards. Harmonization approaches often result in the adoption of those standards that the least progressive nation will pursue.

We're also concerned to ensure that Canada consistently protects the rights of governments at all levels—municipal, provincial, national, and first nations—to own, manage, operate, and make decisions with respect to public drinking water supplies in particular. Any discussions about providing additional private investment in this area has to be cognizant of the high priority Canadians place on public drinking water control that was stressed after the Walkerton experience in the year 2000.

To conclude, there may be opportunities to pursue additional environmental and sustainability commitments in the areas of habitat protection, restoration, wildlife conservation, legacy contaminated sites restoration, and many other areas. Attention to quality of life issues is also essential in any expansion of economic activity by Canada. We would suggest that those include fair safe work, environmental health, application of the precautionary principle, reduction of use of toxic materials, and public participation in decision-making with respect to land use. Those would be just a few, but those very same areas may be worsened if the sustainability issues are not examined and explicitly pursued before economic activity by Canada is increased in these areas.

Thank you for the opportunity to make these comments. I will be pleased to answer any questions.

• (1550)

The Chair: Thank you very much for your testimony. We look forward to the questions and answers. We'll start with Mr. Davies, for seven minutes.

Mr. Don Davies (Vancouver Kingsway, NDP): Thank you to all the witnesses for being here.

I'll start with you, Mr. Kurbis. You know that Canada has four trade agreements already with the four participants in the Pacific Alliance, and the four participants in the Pacific Alliance have free trade agreements with themselves.

My first question is whether there are any tariffs currently against pulse products in Canada in terms of those four markets.

Mr. Gord Kurbis: Yes, but they are in the process of being sunsetted through the existing FTAs. For example, we have 4,240 tonnes of dry edible bean TRQ into Colombia. That won't become completely duty free with unlimited quota until 2020. It was originally scheduled to be 2022, but it's two years earlier because we have the transversal clause.

Mr. Don Davies: Do I understand correctly that the free trade agreements have dealt with tariffs and there's a mechanism in place to systematically reduce them to zero over time? Is that taken care of?

Mr. Gord Kurbis: Exactly correct. Yes.

Mr. Don Davies: Okay, thanks.

Also, obviously there's some level of pesticide, insecticide, or herbicide residue that's unsafe in our food. With all these five jurisdictions sitting down to harmonize that, what if there are differences in the respective tolerances in the different countries? How does that get resolved? Whose view prevails?

Mr. Gord Kurbis: This is a good question. Let me answer it in two parts.

First of all, the residues present in pulse crops in the vast majority of cases can't even be detected using today's analytical methods, so they're not different from zero. Our residues in pulse crops from Canada are so low that by and large we wouldn't worry, for example, if we had an MRL in Canada that was 5 parts per million but it was 4 parts per million in Colombia and 10 parts per million in Chile, because what we are asking to have as a safeguard is that even though we can easily come within any of those limits, even though they differ, what we can't tolerate is the near zero default tolerances of, let's say, 0.01 parts per million.

So the differing MRLs, those could become an issue some day. They aren't the issue that we're discussing today. It's the near zero default tolerance.

Mr. Don Davies: Thank you. I understand your position on that.

Ms. McClenaghan, you raised environmental considerations, and you also mentioned labour rights. I think that's something that's really top of mind for Canadians with the disaster we've seen in Bangladesh, where over 400 workers have died, and this being May Day, where we think worldwide about the working conditions of workers. I think what's on a lot of Canadians' minds right now is that while we all want trade and we want products to come, we are concerned about the conditions in which those goods are produced. I think Canadians want goods that are not produced with child labour, are not produced with labour that is exploited to the point where people's health and safety and basic needs are being jeopardized. I think also that Canadians don't want goods that are produced in areas that do unacceptable damage to the environment.

You mentioned drinking water as well. I'm mindful of the fact that in one of these countries, there's a live issue. There's the Pascua-Lama mine, which is a mine that Barrick Gold is operating on the border between Chile and Argentina. This is a very, very large mine with billions of dollars of development already invested. Recently the Chilean court halted any further development because there are concerns that this mine is leaking toxins into the rivers and local water supplies.

I'm just wondering, from your point of view, is there something Canada can do or should be doing, or anything you've seen in trade deals that can address these kinds of concerns?

● (1555)

Ms. Theresa McClenaghan: Some of the agreements have environmental chapters or side agreements or annexes. The proof is in the pudding, so to speak, in terms of how well those are enforced and monitored and what kinds of rights they give for citizen engagement, for example, in all of the member countries. I agree that fundamentally we would like to see any trade agreements enhancing sustainability and not making it worse. In other words, the idea that we have a triple bottom line and not a single bottom line needs to be really internalized in a way that we haven't necessarily done in the past.

Specifically in the area of mining, Canada has learned a lot in terms of our past mining activities here in Canada in terms of legacy sites, and while more recent legislation is improving in some respects, we don't want to see that kind of activity repeated or those mistakes repeated elsewhere. We're well aware that tailings ponds, for example, can provide a significant risk, and we know all too well that when drinking water sources have sources of contamination that are not controlled, there can be real tragedy.

Those are the kinds of things that should be controlled.

Mr. Don Davies: I take it you're somewhat familiar with the environmental side agreements that form part of Canada's trade template. How effective have those been, in your view, in monitoring and enforcing environmental standards or in raising the environmental standards of production in the trading nations?

Ms. Theresa McClenaghan: I think the ones with these countries are too new to say. The NAFTA one is the longest standing one.

There's the Commission for Environmental Cooperation that was set up with Mexico, Canada, and the United States. There are some useful mechanisms there. For example, when there's tri-country reporting on the level of pollution by the biggest polluters in the three countries, it's been useful for the three countries to see a joint report where they see who are the biggest polluters, in which country. The embarrassment factor that results can be useful.

Mr. Don Davies: Do you have any suggestions for what you'd like to see in a trade agreement or in any kind of negotiations if Canada does enter the Pacific Alliance? I'm looking for positive suggestions for how we can better protect the environment in our trading relationships.

Ms. Theresa McClenaghan: I mentioned investor state in particular, because I do worry about that operating as a regulatory chill. I'd like that to be deleted. Any of the harmonization provisions should specifically retain the right of the countries and jurisdictions in question to be able to pursue what they, in good faith, see to be proper health, welfare, labour safety, environmental protection rules.

There is a concern that with the harmonization initiatives, sometimes the country that thinks it should pursue—or their citizenry would like to see them pursue—a stringent standard is dissuaded. I note with interest the point that Pulse Canada made about small differences; differences they can operate within are not the issue. I think that's important to note. It's not that we should all race for the least restrictive standard. Each country should pursue the one they think is best.

Mr. Don Davies: Thank you.

The Chair: Thank you very much.

Mr. Holder, you have seven minutes.

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

I'd like to thank our guests for being here today. I've appreciated your testimony.

I want to make an opening comment, if I have a brief amount of latitude, Chair, because I think it ties into setting some of the backdrop of our whole review of the Pacific Alliance.

One of the things we've heard, and you'd all appreciate this, is that when Canada has entered into free trade agreements, somehow we have been disadvantaged as a result of that. We've heard that certainly from at least one member opposite. However, I was doing some research and I just want to enter it into the record. I think it would tie in particularly to the pulse industry. I just want to share this.

With respect to Chile, which is our longest standing trade agreement, in merchandise trade going back to 2009, we had \$644 million in exports, and in 2012 we increased that up to \$789 million. In service trade in 2007 we had \$89 million in exports, and we increased that in 2010 to \$137 million.

For Colombia, in merchandise trade back in 2009, there was \$602 million in Canadian exports. In 2012 this increased to a whopping \$827.9 million in Canadian exports. Service trade with Colombia back in 2007 was \$80 million in service exports. This had increased, three years later, to \$146 million in exports.

For Mexico, in 2009, in terms of merchandise trade, we had \$4.8 billion. Certainly it's our largest player in Canadian exports. In 2012 we increased this to about \$5.4 billion of Canadian exports. In service trade in 2007, we had \$677 million in exports. In 2010 this moved to \$691 million in service exports.

Finally, for Peru, in merchandise exports, in 2011, Canada, for merchandise trade, had \$516 million of Canadian exports. This increased the next year to \$536 million.

My point is that in every one of these countries where we have free trade agreements, we have increased, and in some cases significantly increased, our exports both in merchandise trade and service trade.

I have a question for our representatives from lentils. We had a question the other day, and I want to ask this on behalf of some members, because this became a question: can you define what lentils are?

I'd just like to ask you to explain that in simple terms, Mr. Kurbis, for those of us who don't have an agriculture background.

•(1600)

The Chair: I think the question was on legumes, but let's go with lentils.

Mr. Ed Holder: I thought I said pulses.

Don't take this question out of my time, Chair, because you asked it now.

Hon. Wayne Easter: You should have brought a sample.

Mr. Gord Kurbis: Legumes are a category of plants that draw their nitrogen directly from the atmosphere, so they self-fertilize with respect to nitrogen. Pulses specifically are a subcategory of legumes that are the edible seeds of legume plants, excluding oil seeds. In practical terms, for us that's peas, beans, chickpeas, lentils, but it would include lupins, fava beans, etc., in other parts of the world.

Mr. Ed Holder: Thank you. For the record, I love lentils.

We have free trade agreements with all four of these countries. I'm trying to get a sense from you, knowing that we already have free trade agreements—and in your comments, Mr. Sekulic, you mentioned that some of the tariffs are going to be coming off as a result of prior agreements—of what interest you see in Canada's going from observer status to full membership in the Pacific Alliance. Where do you see the benefit for your industry?

Mr. Nick Sekulic: It has more to do with the harmonization of the regulatory issues, the MRL limits. Obviously, in becoming full members you would have a greater amount of discourse with these partners.

Mr. Ed Holder: How does that help you?

Mr. Nick Sekulic: We could avoid the potential of what you would call a standby ruling on the MRL level.

Mr. Gord Kurbis: Or a breach, or a trade disruption.

Mr. Nick Sekulic: Those could be put in place as an impediment to our expanding a market. We'd rather have them dealt with in a harmonized framework.

Mr. Ed Holder: We've heard some prior testimony that suggests that coming in as full members gives us the opportunity to promote trade and attract investment opportunities with markets beyond the current four, because there are several other players now involved.

Does that serve as a potential benefit for your industry?

Mr. Nick Sekulic: In addition to what I just stated, yes, it does. That would be a similar benefit.

Mr. Ed Holder: Thank you.

Ms. McClenaghan, thank you for your testimony. Your comments were very thoughtful.

By the way, I want to agree with my colleague who just commented. We don't believe in child labour. We don't believe in exploited labour. I think we're all of one mind on that as a position.

You mentioned that Canada should learn its lessons from home, but may I ask you, could you imagine, in the extraction industry... We already do business with all of these four countries and we do business with countries throughout the world in the extraction industry, but particularly in South America. Do you think that having a fuller relationship with these countries would somehow potentially diminish Canada's code of conduct for its business here in Canada?

Ms. Theresa McClenaghan: No, I'm not saying that.

Mr. Ed Holder: I appreciate that.

Could you imagine, then, that somehow we might be able, with what I think is our reasonably strong reputation worldwide in the extraction industry, to upgrade some of the extraction activities in the countries we deal with? I sure hope so.

Ms. Theresa McClenaghan: Yes, I do, and I would say starting with Canada's own companies operating abroad. CELA did work in the past. We had a trade and environment program and specifically had a project with CIDA funding. One of the issues that was extremely important was the public participation and engagement of the surrounding community in the process of deciding whether, how, and how to operate the benefits, etc. Those are all areas that are extremely important to pursue. It's true as well in Canada's north with our first nations.

• (1605)

Mr. Ed Holder: Thank you all. I appreciate that.

The Chair: Thank you very much.

We'll move to Mr. Easter for seven minutes.

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

Thank you, folks, for your presentations.

I will begin with the Pacific Alliance, and this is mainly to the pulse industry. There is a kind of debate about what the Pacific Alliance is really and what it is going to do for us. From my perspective and from everything I've heard to date, it seems to be a kind of high-level club in which we can have discussions, but it's not a specific trade agreement with rules.

Nick, earlier you may have touched on how it would be useful. I'm still trying to figure out the usefulness of this Pacific Alliance, other than having wonderful discussions and meetings. You may have touched on its being an area in which perhaps you can have some discussions, whether on zero tolerance issues, methods, or whatever, and can head off a problem before it occurs.

What do you see as the benefit of the Pacific Alliance, which is an entirely new concept, different from anything I've seen discussed around here? It's not a trade agreement; we already have trade agreements with these countries. The department couldn't explain what we're doing in doing this study on the Pacific Alliance, but we're into it.

Mr. Gord Kurbis: Let me answer by way of noting what the pulse industry is asking, along with other Canadian and international grain industries, as well as other agriculture sectors within the Trans-Pacific Partnership.

We're asking for an SPS rapid committee, which is the equivalent of a small claims court, rather than going to the Supreme Court when you have an SPS trade disruption. We're asking for a low-level presence policy adoption. And we're asking for the MRL short-term and long-term solutions, which I articulated earlier.

The TPP, in our view, holds great promise in bringing about improvements in each of these three areas because it is a multi-lateral forum and there's a lot of exporter presence. We couldn't have predicted that the TPP would turn into that. We can't predict where the TPP will go, whether there could be delays or some other reason that we don't get what we want out of it. I suppose the Pacific Alliance represents something like an option value, to pursue similar harmonization in those areas just in case something happens to these other negotiations.

That's just from the narrow perspective of our own industry. There may well be other industries for which it's a big win.

Hon. Wayne Easter: You're talking about the TPP here.

Where do you see the benefit in the Pacific Alliance? Are we going to have a wonderful chat? Are we going to send bureaucrats to wherever? I mean, this thing isn't going to establish rules, that I can see.

Mr. Gord Kurbis: It would have to increase in scope for it to have a material benefit for us.

Hon. Wayne Easter: Theresa, do you want to add anything to that?

Ms. Theresa McClenaghan: Everything I could find out about it right now is very high level, so my comments are equally high level.

I think where there is potential benefit is in the fact that in environmental technologies Canada has a lot of opportunity to do innovation. Specifically, as I mentioned, the Latin American bank was noting the pressures around energy and water, for example. Even without establishing additional rules, just the additional exchange and opportunities to pursue good solutions for low-income residents that would apply both here at home and there would be interesting things to pursue, as well as some of the academic exchange that could be pursued there also.

Hon. Wayne Easter: Okay. Thank you.

On the zero tolerance issues, you proposed basically finding some minimum standards for residues on products. I think the group presented a three-point solution. I don't recall all the points, but we'll certainly have them in the evidence.

One of the biggest issues the agriculture sector is facing now on trade is our production methods versus those of other countries. Where the level is zero tolerance, we can be out of the market in a minute and have a hell of a lot of bad publicity, which doesn't do us any good.

I would suggest that's a proposal that goes well beyond the Pacific Alliance study. When we, as a committee, are doing our discussions on our report, we should perhaps consider writing a letter to the minister suggesting that those three points be considered in our discussions with all the countries that currently have zero tolerance. I see that as one of their major concerns. That's just a suggestion. I really appreciate receiving those three points.

To the pulse industry as well, if we join the Pacific Alliance, what do you see are the opportunities coming out of it, in terms of processing in Canada if possible? In some of the industries you don't process a lot of your products.

Do you see other opportunities within Canada, beyond the raw trade of products, where we can create some economy within Canada?

•(1610)

Mr. Nick Sekulic: Certainly I think of the crops we export to these countries, a good portion would be not shipped farmer dressed, meaning not shipped bulk. They would have been processed in Canada, somewhere likely near where they were produced, on the Prairies. Certainly there'd be cleaning and in some cases splitting of the crops. Certainly as an industry, we'd love at some point to expand the consumption of these pulse crops beyond whole pulses to include fractions of pulses in, say, cereal-pulse flours, which could add extra nutritional value.

There's huge opportunity globally for our pulse industry to satisfy a lot of the food security issues that are now creeping into the public's mind. Right now, pulse protein is only 5% of the global protein intake. We have an objective in the not-too-distant future to double that as a food security strategy. In this part of the world where the population is growing, where there are going to be food security issues, expanding trade of whole foods or fractions of these whole crops we grow is a tremendous opportunity. We are not the world's largest producer of pulse crops or the world's largest exporter, but there's tremendous opportunity.

I just returned from the World Pulses Convention. There is a lot of interest in pulses as a food security solution everywhere, including all these countries that had delegates at that convention.

The Chair: Very good. Thank you very much for that.

We'll now move to Mr. Shipley for seven minutes. We may have a little time.

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

I want to thank my colleague, first of all, for helping us understand the advantages that Canada has had in our trade agreements, not only in terms of our commercial trade, but also in our service trade. We on this side do understand why we're having these talks about the Pacific Alliance. Clearly, it is part of a global picture in terms of reaching and being able to be a hub into the Pacific Asian countries around the world, for example. It is, in fact, an agreement that would bring a bloc of four countries—with us it would be five—to harmonize many of the things you were just talking about. I'll go to that with either Gord or Nick.

Understanding the crop protection minimum residue levels and getting minimum standards to be acceptable are challenges that we in Canada are dealing with in trade agreements. You talked about almost \$4 billion of product being at risk because of an MRL gap. That is a huge issue to get over. How do we establish that? Canada has to be careful not to be the one that sets the rules, but if everybody else sets them differently, then you've automatically put yourself in a position.

Have you as an organization had discussions with commodity groups around the world in terms of establishing an international standard outside of Codex? Can you talk to us a little about where that is, or if it has even started? Have you had any of those discussions?

•(1615)

Mr. Gord Kurbis: I'll be very brief.

Coming out of NAFTA, there was an agreement to work together and share regulatory resources among Canada, Mexico, and the U.S. in order to develop a common approach to setting MRLs. That was so successful that it expanded in a way into what we now call OECD country joint global reviews. The joint global reviews are the model for the future in which PMRA from Health Canada would collaborate with its counterparts in other OECD countries and, as I've mentioned, increasingly with South American countries, such as Brazil, to come up with a common approach.

I think that is the international reference point that represents the solution we would like other countries to increasingly participate in or accept the outcome from, especially as Codex brings us longer and longer delays that increase the trade at risk here.

Mr. Bev Shipley: You mentioned that we could actually get a short-term or temporary MRL. I'm assuming that you're talking about one just within the Pacific Alliance.

Mr. Gord Kurbis: Yes, I mean in this context.

Mr. Bev Shipley: Can you give us some suggestion of how that might be approached in a better way? Have you had any discussions on this subject?

Mr. Gord Kurbis: Let me give you an example from the Canada-Panama FTA that was just signed. The FTA was not germane to how Panama deals with MRLs, but they have an MRL deferral path that essentially says that their MRL is going to be the Codex MRL, but if Codex doesn't have an MRL in place, it's going to be the U.S. MRL, but if neither Codex nor the U.S. has an MRL in place, then they are going to defer to the EU MRL.

There are many precedents in sovereign countries for the interim solution we're asking for, namely, some form of mutual recognition of MRLs. You can take the MRL off a shelf from the regulatory system of a country you trust and accept it as your own on an interim basis until there is some improved degree of regulatory harmonization. There are examples of this out there.

Mr. Bev Shipley: Do you have a sense that there may be a resistance by some only in order to create a non-tariff trade barrier?

Mr. Nick Sekulic: Most certainly.

Mr. Gord Kurbis: Yes, certainly.

There are cases, for example in the EU breach which we referred to, that wouldn't have been entirely protectionist measures. That one was regulators going through the mechanical process of saying, "Here's the number we have in the books, and here is the test result." That one had a zero threshold, or close to it.

Mr. Bev Shipley: I hope we resolve this. It has to be a main part of the discussion.

Ms. McClenaghan, you're absolutely right. When companies, particularly Canadian companies, go into other countries, we want to make sure we're not dropping a standard that the other country has already, just to take advantage of profits.

We had the mining people in a little while ago. They weren't necessarily the miners, but they were the ones who provide all the equipment. They gave an interesting account that shows the significance. Some 3,000 firms across Canada are offering mining-specific products or services. They're in hundreds of countries.

Canada is recognized, as I think my colleague said, for our expertise not only in technology, but actually in how we run; we do have a conscience, when we go into these countries.

What I'm wondering is, when we look at a standard, is it a Canadian standard that needs to be established? Or, when we move into other countries, are there international standards there that actually serve as a benchmark to start from, which are then phased up to meet some other higher standard as we work through a project?

Many of these countries will not have even that, if there is an international standard.

Is there one? Should there be one?

• (1620)

Ms. Theresa McClenaghan: In the case of mining, I don't know for sure whether there is one internationally that could be pointed to.

What has happened is that in the past, there has been case-by-case sparring, and that has led to specific approvals, in the Canadian history for sure, for a specific mine.

Mining is regulated provincially. In Ontario we now have new standards under Ontario's Mining Act. The environmental community still wants those improved.

For example, in the Ontario context, the environmental community would still say that those need to be further improved, that they are better than they were 100 years ago, but that they are not where they want them to be ultimately.

The Chair: Thank you very much.

Now, a blast from the past, we have the very talented Ève Péclet.

Some hon. members: Oh, oh!

The Chair: The floor is yours. You have two and a half minutes.

[*Translation*]

A member: Good afternoon, madam.

[*English*]

Ms. Ève Péclet (La Pointe-de-l'Île, NDP): Don't take my time.

Some hon. members: Oh, oh!

[*Translation*]

Ms. Ève Péclet: Ms. McClenaghan, I would like to echo my colleague's question. This is very important, given that what we are talking about here are companies that represent Canada abroad. My colleague mentioned a situation involving Chile, but we are well aware that it has also happened in Peru.

Barrick Gold has admitted that its security guards raped a number of aboriginal women in Papua New Guinea. It is therefore really important that we talk about corporate social responsibility, and more specifically the social responsibility of Canadian corporations

that represent Canada abroad. I think it is worth delving a little into this subject and talking about the standards that apply in Canada, what gaps there are in those standards, and how they could be remedied, for example. If we get involved in this kind of alliance or free trade treaty, it is important that the standards applied in Canada also be applied abroad.

Could you tell us about the deficiencies in the Canadian system and what could be done so that human rights are respected and incidents like aboriginal women being raped by employees of Canadian companies do not happen again?

[*English*]

Ms. Theresa McClenaghan: I agree. I would look to the specific standards that exist. For example, water standards are generally quite high in Canada, so you can be looking at both the freshwater quality objectives that Ontario has as well as the drinking water guidelines that Canada sets. There's no reason that you should be having the situation where Canadian companies have to meet anything less abroad.

In terms of health and safety, occupational health, those are other areas we work on as well. We're quite concerned to make sure that we're constantly pushing for better standards here at home. We think there's lots of room for improvement, but we certainly don't want the companies meeting anything less abroad either.

The Chair: Thank you very much.

Mr. Keddy.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chairman and welcome to our guests. I have two quick questions.

At the beginning of the testimony there was quite a bit of discussion between Mr. Sekulic and Mr. Kurbis that we're looking at the Pacific Alliance as the fifth largest export market for pulses for Canada. For that very reason it would seem to me—and those are your comments—that it's important for us to play in this field, if you will.

Quite frankly, the U.S. has not been invited to join at this point. It's separate from TPP. I want to ask you both about the importance of that. To be in a format that is a trading agreement, and it's going to possibly morph into a much larger trading agreement, but we don't know that yet because we've not seen those parameters, but I think to be there without our major competitor is a huge opportunity for Canada. Do you see that same opportunity there?

• (1625)

Mr. Gord Kurbis: I'll make a few comments and then ask Nick to also comment.

In agriculture, we understand the value of options. If for whatever reason we're not able to get what we would like to get out of TPP, or if it turns out that Colombia, which is not a member of TPP, becomes an increasingly important trading partner in the Pacific Alliance and it represents an opportunity to bring them into the fold of some sort of improved regulatory harmonization, or if the Pacific Alliance expands greatly in scope, providing opportunities we can't really forecast at this very moment, these all represent benefits to our industry. That's an option value for us.

Mr. Nick Sekulic: Rising food commodity prices are stimulating investment in infrastructure and assets globally. The key thing for Canadian farmers is to be as competitive as possible and that means access to markets. We should never pass up an opportunity to improve access to markets, especially a key market.

The Chair: Time is gone. Thank you very much. We certainly want to thank you. We got to know you well enough so we can call you Gord, Nick, and Theresa.

Voices: Oh, oh!

The Chair: Thank you for coming and testifying before our committee. With that we will suspend as we set up the next panel.

• (1625)

(Pause)

• (1630)

The Chair: We'd like to start our second round.

We have with us from Canadian Manufacturers & Exporters, Mr. Mathew Wilson, as well as from Bombardier Inc., Mr. Pyun.

Mr. Pyun, the floor is yours to start us off. We look forward to your comments.

Mr. Pierre Seïn Pyun (Vice-President, Government Affairs, Bombardier Inc.): Thank you, Chair, for the opportunity to appear before the committee. I look forward to an exchange with you on our perspectives on the Pacific Alliance.

Again, my name is Pierre Seïn Pyun. I'm vice-president for government affairs at the corporate office of Bombardier. What I would propose to do is to give just a very quick overview of the company and our priorities, and then look at our activities and perspectives in Latin America overall, and then conclude with our take and comments on the Pacific Alliance in particular.

As you know, Bombardier is a manufacturer of trains and planes. We have a global operation with our headquarters located in Montreal, and we are listed on the Toronto Stock Exchange. We have around 72,000 employees and 80 manufacturing and engineering sites around the world in 26 different countries. Our revenues were close to \$17 billion for the fiscal year that ended on December 31, 2012.

We're a very export-oriented company from our base in Canada. We generate 95% of our revenues from outside of the Canadian market. We are the third largest civil aircraft manufacturer in the world, with the widest portfolio of business aircraft. We're actually number one for business aircraft, going from light jets to mid-size, super mid-size, to intercontinental-range business aircraft with our Learjet, Challenger, and Global families of aircraft. We are the world leader in regional aviation. We are actually the inventor of regional aircraft with our CRJ regional jets and Q400 aircraft.

We are currently developing a new narrow-body trunk line aircraft that we call the C series. It's going to be the most cost-efficient, fuel-efficient, and environmentally friendly aircraft in its category, seating between 100 to 160 passengers, depending on the configuration that the customers want. The CS100, the smaller version of the C series, will do its first flight by the end of June and will enter into service next year.

On the rail side, we are the largest rail equipment manufacturer in the world, supplying light-rail vehicles, metros, trams, commuter trains, regional trains, locomotives, turnkey systems like automated people movers, monorail systems, and also very high speed trains, as well as the key components for train technologies, including bogies, train controls, signalling systems, propulsion systems, and so on and so forth.

I would flag two major priorities for us this year.

We're very heavily invested in research and development with the C series aircraft program that I mentioned, but also we are working on other aircraft, the new aircraft programs, like the Global 7000 and Global 8000 and the Learjet 85. The company is spending a lot on research and development. This year we'll be spending \$2 billion on property, plant and equipment overall for the company.

Also in keeping with this focus on research and development, we're currently working on our very high speed train technology, which will be introduced into revenue service in the Chinese market. We're talking about trains that can go up to 360 kilometres per hour.

The second priority that I would flag, and I think it relates to the topic at hand today, is our increasing focus on emerging markets. Europe and the U.S. remain very important markets for us. In the aerospace segment, Europe generates 20% of our revenues and North America 56%. They will remain important for us. For rail transit, Europe is 63% of our revenues and North America is 18% of our revenues, but there's no question that we're increasingly turning our attention towards emerging markets.

At this point of time, Asia Pacific represents around 12% to 13% of our overall revenues, but we're intent on growing that share and growing the share of other emerging markets as well. To give you a sense of the progress on that front, in the last five years our revenues from the so-called BRIC countries have quadrupled from \$500 million to \$2 billion. That's a good segue to Latin America.

• (1635)

Overall I think we have a fragmented presence in Latin America. We're quite strong in Mexico. We have a strong manufacturing presence and I would say a growing presence in Brazil as well, particularly on the rail side, and also in business aircraft. But we think that our record in Latin America, again, overall from a broad perspective, is quite spotty in light of the significant potential that the market presents. We still have a long way to go, with perhaps the exception of business aircraft. In that sector we're doing quite well, with a 26% market share in Latin America.

As I mentioned, we have a strong presence in Mexico, with over 3,000 employees. We have manufacturing sites on both the aerospace side and rail side, with our sites in Sahagún and also Querétaro. Sahagún is on the rail side and Querétaro on the aerospace side. Querétaro has been really a good-news story for us. We have invested one-half a billion dollars in that site, which produces different components for our aircraft, including electrical sub-assemblies, harnesses, and structural parts for our aircraft.

I mentioned that we're also present in Brazil. We're actually expanding our presence in Brazil, where we have a little fewer than 400 employees at this point in time. Last year we inaugurated a new manufacturing site in Hortolândia, which is in the state of São Paulo, for rolling stock manufacturing. Currently we're working on a large-scale monorail project for the city of São Paulo. There's a lot of input coming from Canada, from our site in Kingston. It's an engineering site, and Kingston, Ontario, is doing the design, engineering, and testing for that monorail system, for which the vehicles will be manufactured in Brazil.

We also have an aerospace presence in Brazil, with a parts distribution centre in São Paulo and a regional support office there as well. We are pursuing aerospace opportunities in other Latin American countries. On the commercial aircraft side, just to give you a sense of our presence, we have in total close to 70 aircraft. That's our installed base of commercial aircraft. We have a few customers obviously operating those aircraft. But overall it's a region dominated by our competition. So for ATR, which is a European company for turboprop aircraft, the installed base of ATR aircraft is double our installed base of Q400 aircraft. Of course, Embraer is very strong in Latin America and they have as customers many, if not most, of the large carriers such as AviancaTaca, Aeromexico, and so on and so forth.

With respect to countries that are part of the Pacific Alliance, on the rail and metro side, we see some opportunities in Colombia, for the city of Bogota and Medellín as well. We are pursuing signalling opportunities and also propulsion system opportunities for real projects in Chile and Peru.

For business aircraft overall, as I said, we have a large fleet of aircraft in operation in Latin America, close to 450. That's a 26% market share. That's one segment where we're doing quite well. I was talking about the overall potential the market offers. We see a demand for around 2,300 business aircraft in the next 20 years for Latin America. On the commercial aircraft side, we see a market for around 930 aircraft in the next 20 years, but as I mentioned, currently our penetration is quite minimal.

• (1640)

I'm going to conclude with a few comments on the Pacific Alliance.

Overall there's no question that we're a strong supporter of all the efforts undertaken by the Canadian government to engage in trade negotiations to open and diversify markets. We think that removing barriers to trade and improving certainty for foreign investment obviously are key for companies such as Bombardier that are outward looking. We benefit from trade agreements from a number of perspectives, including that agreements facilitate investments and business mobility as well as trade in equipment and services.

With regard to the Pacific Alliance, we welcome and encourage deeper commercial ties with the region. We believe that this will be in the interests of the rail and aerospace sectors here in Canada. We also think that participation as an observer at this point in time in such groups as the Pacific Alliance reinforces Canada's commitment towards regional integration and to market-centric international cooperation schemes or arrangements with like-minded countries that will facilitate growth in investment and trade linkages.

At this point in time, we don't face any particular market access barriers in that region and with respect to the current members of the Pacific Alliance. However, more engagement from the Canadian government in the region with a view to increasing Canada's influence in the region with, as I said, like-minded countries, would be very welcome, because we see significant potential for Canadian businesses, including Bombardier, in the markets that are covered by the Pacific Alliance.

I will leave my comments at that. I would welcome any questions.

The Chair: Thank you very much.

We'll now move to Mr. Wilson from Canadian Manufacturers & Exporters.

The floor is yours, sir.

Mr. Mathew Wilson (Vice-President, National Policy, Canadian Manufacturers & Exporters): Thank you, Mr. Chair.

My name is Mathew Wilson. I'm the vice-president of national policy with Canadian Manufacturers & Exporters.

I'm pleased to be here on behalf of 10,000 members across Canada to discuss Canada's possible entry into the Pacific Alliance and to provide our support for the government on this initiative.

For those of you who don't know CME, we're a national organization with offices in every province and every region of the country and members right across the country, as well as offices in Europe, Mexico, and the United States.

Eighty-five per cent of our members are small and medium-sized enterprises that represent every industrial and every export sector, and from all regions of the country.

Manufacturing is the single largest business sector in Canada. Canadian manufacturing sales totalled \$571 billion last year, directly accounting for 13% of Canada's economic output. Manufacturers employ about 1.8 million Canadians in highly productive, value-added, high-paying jobs. Their contribution is critical for the wealth generation that sustains the standard of living of each and every Canadian.

Manufacturing is an export-intensive business. More than half of Canada's industrial production is exported directly each year. In fact, manufacturers are responsible for 63% of Canada's total merchandise export and more than 70% of Canada's goods exports to the countries of the Pacific Alliance.

It is increasingly critical for Canadian manufacturers to succeed in global markets and to diversify their customer base, just as Pierre was talking about in Bombardier's case.

As manufacturers further invest in innovation and become more agile, specialized, and able to serve niche markets, the more they need to find customers, suppliers, and business partners globally.

While Canada and the U.S. remain the priority for most of Canadian industry, we must also understand that a growing share of our membership is looking to take advantage of new and emerging opportunities beyond North America in countries such as those in the Pacific Alliance.

The opportunities the companies are looking for are to find new customers in new markets, to find potential investors in Canada, to seek investment opportunities abroad, to be able to source services from around the world, and to find qualified personnel to bring back to Canada.

While Canada has existing free trade agreements in place with Chile, Colombia, Mexico, and Peru, these markets are still being developed and discovered by many Canadian manufacturers. In a recent survey of our members who represented almost 2,000 facilities across Canada, companies outlined how their supply chains and customer bases are expected to change over the next three years. Increasingly, manufacturers are looking less and less at domestic markets and more towards opportunity in developing markets.

Mexico, which has by far the largest economy in the Pacific Alliance, is in particular expected to be a significant growth market for Canadian exporters. Over the next three years, based on our survey results, there will be nearly a 20% increase in the number of companies exporting to Mexico, with more than 90% of companies expecting to be exporting there by 2015.

Total exports to the region of the Pacific Alliance were worth more than \$7.5 billion last year, of which \$5.3 billion were of manufactured goods. Many of these exports are in traditional sectors, such as aerospace and automotive production, which is deeply integrated across the NAFTA region; however, exports are much more diversified and growing across such sectors as agricultural products, iron and steel, mining equipment, oil and gas extraction equipment, and electronics. Given the expected growth of the economies in these markets, they should provide additional market opportunities for companies in these sectors as well as in such other sectors as construction, engineering, insurance, transportation equipment, and financial services.

In order to take full advantage of these trade agreements, CME's priority for the government's trade agenda policy as a whole, as well as for specific trade agreements such as this one, is to ensure that it enhances manufacturers' and exporters' ability to compete and win in domestic and global markets. In other words, our priority is to ensure that trade agreements put us in a position to grow and strengthen Canada's manufacturing base, and by extension to grow Canada's exports of goods and services.

We believe, in the case of the Pacific Alliance, that given the existing FTAs with these countries, it can be an important initiative to strengthen trade relations with existing business partners and better position Canada to lead regional integration throughout the Americas and into the Pacific region.

This agreement will help set the framework for further supply chain strengthening and for growing export throughout Central and South America and across the Pacific. CME believes that this opportunity and strategy are similar to those of the Trans-Pacific Partnership, which started with a small group of companies and grew to a much larger collection of economies, one which now represents more than 650 million consumers and more than \$20 trillion in GDP.

We also believe that using multilateral frameworks such as the Pacific Alliance provides Canada an opportunity to elevate all countries to the same high level of ambition that Canada has in its

negotiations, including those of the TPP and CETA currently under way, and ensure that free trade agreements not only eliminate tariffs but also will open up foreign markets through the elimination of non-tariff barriers, will open procurement markets, and will facilitate the movement of goods and people among these trading partners.

•(1645)

CME is very supportive of Canada's full involvement in the Pacific Alliance and in other such trade agreements that expand market access on a reciprocal basis and will deliver a net benefit to Canadian industry.

Thank you for letting me be here today. I look forward to the discussion.

The Chair: Thank you very much for your testimony. You may have answered some questions of individuals around the table about the importance of the Pacific Alliance.

Before we get to Mr. Easter, and I'm sure he'll have some great questions for you, we're going to start with Madame Papillon.

[*Translation*]

Ms. Annick Papillon (Québec, NDP): Thank you.

I would like to thank our guests for being with us today.

First, I have a few questions for the representative of Bombardier, which is a Quebec company.

You said there were no tariff barriers in the case of exports from members of the Pacific Alliance. Is that correct?

Mr. Pierre Seïn Pyun: Yes. I said that Pacific Alliance members did not face significant barriers, be they tariff or non-tariff.

•(1650)

Ms. Annick Papillon: Could you tell me what benefits the Pacific Alliance offers that could not be offered by the free trade agreements already signed with the members?

Mr. Pierre Seïn Pyun: We see it as allying ourselves with countries that are on the same wavelength as Canada regarding free trade. What I am talking about here are countries that believe firmly in open markets. It also means raising standards together, essentially to set examples that can be applied to other bilateral or regional agreements. We are well aware that there are already free trade agreements with some current members of the Pacific Alliance, and that in terms of philosophy, those countries are already very oriented toward free trade and international trade.

In addition to setting higher standards with countries that share Canada's views, it would mean expanding the government's diplomatic involvement in a region where we are facing very strong competition with our competitors who enjoy diplomatic support from the government of the country where they are located or established. That comment applies to both rail and aerospace. Embraer, in Brazil, is a competitor we are very familiar with that is very strong in the region. That explains, in part, the limited penetration of our commercial aircraft sector.

Essentially, there are about ten of our CRJ business aircraft in operation in the region. That is very few, compared with what we see in the rest of the world. I also mentioned ATR, a French-Italian joint venture. For a number of reasons, it is very competitive in the market. It has been present for some time now.

We see this as an opportunity to get more involved in a region that represents considerable potential.

Ms. Annick Papillon: How would the Pacific Alliance enable you to harmonize Canadian standards with the member countries? Why do you prefer to join that agreement, when it comes to harmonizing standards, rather than simply making improvements to the free trade agreements that already exist with the members?

Mr. Pierre Seïn Pyun: It is a business opportunity. Mexico, where we have a strong manufacturing presence, as I mentioned, has agreements with the other member countries of the Pacific Alliance. Our approach is certainly not bilateral only; it is global and regional, when it comes to the value chain and the supply chain. We have an opportunity, starting in Mexico, to become more active in the region, with inputs from Canada and from elsewhere. That is what a global company like ours that wants to be competitive has to do.

Some of these countries are also members of the Trans-Pacific Partnership, or TPP. I think this is an opportunity to create alliances within a smaller forum, with a view to achieving common objectives in a larger forum, such as the TPP.

Ms. Annick Papillon: As you know, we are in the process of negotiating free trade agreements with a number of countries, including India, Japan and Europe. There is also the Trans-Pacific Partnership. If you were to try to determine Canada's priorities in relation to those agreements, where would you put the Pacific Alliance?

Mr. Pierre Seïn Pyun: For myself, I would leave it up to the government to set the priorities for the negotiations. There are potential synergies between the TPP, which is a priority both for the government and for us, and the Pacific Alliance.

Realistically, I am wondering when Canada could become a full member of the Pacific Alliance. At the moment, Canada is an observer, as you know. What we are hearing is that Canada perhaps could not become a full member in the near future.

• (1655)

Ms. Annick Papillon: Given that resources are limited, should we not focus our negotiations more specifically on the Trans-Pacific Partnership, for example?

Mr. Pierre Seïn Pyun: For our part, we see them as complementary. In terms of timing, that might work.

As I said, it may not be realistic to think that Canada can actually become a full member in the next year. The Pacific Alliance has indicated that some countries, Panama and Costa Rica for example, were possible members, in the short term. For Canada and a number of other countries, us not being the only observers, we are talking more about the medium and long terms. The parameters of the regional agreement have yet to be defined.

In any event, at this stage, we see our involvement in the Pacific Alliance, as an observer, as being complementary to the TPP negotiations.

Ms. Annick Papillon: Thank you.

[English]

The Chair: Thank you very much.

Mr. Shory, for seven minutes.

Mr. Devinder Shory (Calgary Northeast, CPC): Thank you, Mr. Chair, and thank you, witnesses, for being here. It is always good to hear from the horse's mouth. The witnesses are on the ground and they know from their experience on the ground, and they can always enlighten the committee about the potential benefits or the challenges their businesses face on the ground so that we can address those issues in negotiations.

I'll start my questions with Mr. Pyun. Bombardier, as you said, is basically an exporting company. Bombardier has its operations in, I would say, approximately 40 countries or so. I specifically note in terms of this Pacific Alliance that Bombardier has its operation in Mexico.

My first question is, if the company has business operations in Mexico, why doesn't Bombardier have their operations in the rest of the countries? I'll ask multiple questions because the chair is very good at cutting me off.

Some hon. members: Oh, oh!

Mr. Devinder Shory: My second question is, what is the likelihood, depending of course on the negotiations, that Bombardier would go ahead in these three countries: Peru, Chile, and Colombia?

My third question is, if we become a member, what are the barriers, if any, that we should overcome and which you would want the government to address during the negotiations?

Mr. Pierre Seïn Pyun: With regard to Colombia, Chile, and Peru, at this point in time we don't have a significant presence. We have people on the ground because we're looking at opportunities in rail and also aerospace. We have some prospective customers in those countries.

In rail, as I mentioned briefly in my opening remarks, we're looking at opportunities to supply signalling systems and train control technologies for the metro lines that they want to expand in Chile and Peru. For instance, Santiago has a number of metro line projects that we're currently looking at.

In Colombia, as I also mentioned, there are opportunities for metro and light-rail train projects, for which we may have an opportunity to be a supplier of either the rolling stock or of systems for these infrastructure projects. There are also refurbishment opportunities, existing cars that we can refurbish.

With respect to whether we could invest in those countries, we have invested in Mexico for a number of reasons. On the rail side, we acquired many years ago an existing company that manufactured rolling stock, and that is what we're doing. In aerospace, we invested in Mexico because we were, to put it simply, quite attracted by the investment environment and also by the aerospace cluster that they were ready to establish in Mexico, with support for training and for putting educational facilities in place as well to make sure that there's a supply of a specialized workforce able to grow and support our investment.

I would say that the business model is different between aerospace and rail. With rail, the projects tend to be longer term. When we get involved in a rail project, we become almost an investor, because we have to send engineers, often for a number of years, to work on projects. There might be requirements sometimes to localize, or some offset requirements.

If the size of the market justifies the investment, as in Brazil, and we see a good pipeline of projects going forward for the country—the market itself, but also the region—we may consider localizing production, to some extent.

• (1700)

Mr. Devinder Shory: Let me ask you one quick question.

If Canada becomes a PA member and there is harmonization, basically set-off rules, would Bombardier feel more comfortable than today?

Mr. Pierre Seïñ Pyun: Do you mean, in those markets?

Mr. Devinder Shory: Yes.

Mr. Pierre Seïñ Pyun: When free trade agreements are in place, they provide more certainty and predictability for the company as a potential investor and for the companies that do business in those markets. That includes investment disciplines.

There's a fair amount of business mobility that would be involved in our projects, such as sending engineers not only from Canada but it could be from other countries as well. Anything to facilitate business mobility and intra-company transfers would be helpful.

Mr. Devinder Shory: You have not touched on any specific barriers, if there are any.

Mr. Pierre Seïñ Pyun: At this point in time we're not facing any specific barriers from within the Pacific Alliance membership.

Mr. Devinder Shory: Canada is focusing strongly on the Asia-Pacific region as an emerging market for trade and investment as well as for positive political linkages.

One of the goals that we note the Pacific Alliance has is basically to become a platform for political linkages, economic and trade integration, and extension to the world, with special emphasis on the Asia-Pacific region.

Should Canada support expanded membership in the Pacific Alliance to include Asian countries? If we do, should we emphasize certain countries or certain regions among Asia-Pacific countries, or should we give priority to some specific countries?

Mr. Pierre Seïñ Pyun: Do you mean from Asia?

Mr. Devinder Shory: Yes.

Mr. Pierre Seïñ Pyun: On this, if I have any comment to offer, it is that I understand there is a large number of countries that are observers. If there's any opportunity to leverage the Pacific Alliance in relation to the Trans-Pacific Partnership negotiations, this is what we may wish to pursue.

With respect to whether any specific countries should be members, my comments were limited more to the current membership of the Pacific Alliance than to looking at expanding the alliance.

Insofar as expansion is being considered, the benefit of the alliance primarily would be, as I mentioned in my comments, more engagement from Canada in Latin America or a region of Latin America. That's where we see perhaps an opportunity for Canada for greater engagement.

The second point would be concerning potential linkages and synergies between the TPP and the Pacific Alliance.

I'll leave my comments at that.

The Chair: Thank you very much.

We'll probably get an answer from Mr. Wilson during the questioning of the next questioner, so we'll leave that to Mr. Easter. You have seven minutes.

Hon. Wayne Easter: Thank you, Chair, and thank you to both witnesses. It's a very interesting discussion.

I would say at the beginning that Bombardier needs to be congratulated for its business success. The success of that company is truly amazing.

I think Canadian Manufacturers & Exporters also should be congratulated for their client base and what they do for creating the economy within Canada.

In response to a question from Mr. Shory, Mr. Pyun, you said that the FTAs in place in fact give us more confidence. I've been grappling with this Pacific Alliance study since we started it, and in fact, the chair alluded to this at the beginning. What is the Pacific Alliance that we supposedly get into here and what is it going to do for us that the FTAs are not going to do?

I'm firmly of the opinion that we have only so many resources to go around as a country. We're talking about the TPP, about Japan, about India. I'm of the opinion that maybe our resources at DFAIT would be better spent looking at specific trade deals and specific strategies within Canada for us to take advantage of trade deals, rather than in our becoming a member of every little elite club that's going to have a wonderful discussion around the world. That's my concern about this particular deal.

So my question to you is what the Pacific Alliance is going to do that the FTAs already in place are not.

• (1705)

Mr. Mathew Wilson: Do you want me to start?

Hon. Wayne Easter: You've been well rested, Matthew.

Mr. Mathew Wilson: Exactly.

I think it does a couple of things. One is that the Pacific Alliance, with Canada's involvement, should go beyond the existing FTAs, especially in some of the areas around labour mobility that Pierre was talking about in his testimony and that we mentioned as well.

The other thing it does is it opens up new markets for us. Yes, we have the bilateral FTAs with the four countries, but the Pacific Alliance, with the additional countries that come into it over time, will open up new markets.

The third thing I'd say, concerning resources, is, first, let the folks at the Department of Foreign Affairs and International Trade determine specifically where the resources are spent. In Canada's trade agenda, clearly they're focused heavily on the TPP and on concluding the CETA negotiations. Japan and India are on the side of this right now.

What's unique about the Pacific Alliance, which is similar to the TPP, is that it targets countries that are high growth in developing markets, areas in which our exporters can find new market opportunities that don't really exist right now, especially if they grow beyond the original four. It looks as though they'll let a few more in this fall.

That's a different opportunity from what may exist in Europe for some companies. Europe is a great market for a lot of companies, and we're fully supportive of that, but it's a different type of market from what something in Central America might be.

That's why we think it's good to go beyond the existing bilaterals. It gives new opportunities for companies.

Hon. Wayne Easter: Pierre.

Mr. Pierre Seïn Pyun: I would go back to my comment about the benefit of having a regional arrangement rather than a web of bilateral arrangements. I think it's an opportunity to harmonize. I also mentioned that we have a presence in Mexico, so maybe there's an opportunity for us, in order to enhance our competitiveness, to have some input from our sites in Mexico to supply projects in which we may participate in other alliance member countries.

I would support the comments that Mathew made as well. It's an opportunity to open doors in emerging markets, especially if the Pacific Alliance is going to expand down the road.

One last comment would be that at this point in time Canada is an observer. I would repeat that realistically I'm not quite sure whether Canada can become a full member in the near term, but I think we have to get in early, rather than try to get in at a later stage when the rules and the arrangements are starting to be firmed up.

Our understanding is that they're looking at a number of options as to what kind of arrangements they may have in place, but they may go beyond the traditional free trade agreement. They're talking about doing trade promotion together in other countries, for instance, such as in Europe. To us that's interesting. It's new and different from the traditional free trade agreement approach.

• (1710)

Hon. Wayne Easter: This question is for both of you as well.

Mr. Pyun, you mentioned that government influence in the four countries would help, and Mr. Wilson, you talked about further supply chain strengthening.

What kind of things do we need to do in Canada itself? Signing a trade agreement, in my view, is not enough. What kind of things beyond the trade agreement itself, from a policy perspective, should the government be pursuing that would ensure that manufacturers can take greater advantage of the trade agreements we're in and those we are pursuing?

Mr. Mathew Wilson: I'll talk about this more from a small business perspective, because that's where most of our members are situated. The thing they struggle with, whether concerning these countries or others, is finding market intelligence about what is really going on.

For the support mechanisms around it—and rather than pure policy, it's more a question of the support mechanisms—we are always asked questions about such things, on the trade facilitation side, as to how Canadian companies can connect with local suppliers and local customers, how such things as the trade commissioner service out of DFAIT can be supportive, and what kind of market intelligence they can give them on what's emerging and where the good growth opportunities are, or how EDC functions in terms of promoting and supporting export insurance and finance activities that the companies need. Those are the questions that the smaller companies have. They are more around the business service side and not so much the policy side of the equation.

Frankly, the Canadian government through DFAIT has a pretty good network. The trade commissioner service is pretty good. Most companies, when they start working with the trade commissioner service, find that it benefits them.

Often it's a question of finding them in the first place. The companies don't know where to go for support and help. This is something we try to play a more active role in, to get them to go international.

Hon. Wayne Easter: Thank you.

The Chair: Thank you very much.

We now have our last questioner, Mr. Hiebert. Then we'll have some business to take care of. We'll go in camera for that.

Go ahead, Mr. Hiebert.

Mr. Russ Hiebert (South Surrey—White Rock—Cloverdale, CPC): Thank you both for being here. I found the testimony to be very interesting. In some ways it's consistent with other testimony that we've heard, but also in other ways it's a little different.

You've both commented on the need for leveraging us in the case of the TPP.

Mr. Wilson, I think you were going to respond to my colleague when he asked Mr. Pyun for his take on the TPP angle. I'd like to give you the opportunity to respond with your perspective.

Mr. Mathew Wilson: I agree with what Pierre is saying about the opportunity to get in early in the negotiations to help set some of the framework for the negotiation.

I think one of the challenges Canada finds itself in with the TPP is that we're getting into the agreement fairly late, and a lot of the rules and guidelines and set-up have already been established concerning what they're negotiating on. Canada is having a bit of a difficulty in moving things along the way they want. If we get in at an early stage and get to help set the agenda and the framework, I think it's helpful.

In terms of what countries should be involved, it's hard. The Prime Minister will be going to a meeting in the fall, as an official observer, it looks like, and there could be a slight possibility that we will be invited in at that point, but it's probably a longer way off than that, and trying to dictate who should be in and who shouldn't is pretty difficult for us at this time.

As to the market priorities for our members in both global trade relations and global supply chains, as I mentioned in my remarks, there is a huge and growing importance of Central and Latin America. That's really, in this agreement, looking at if we can expand it beyond the four...*[Inaudible—Editor]*...Central America. Even that in and of itself would be a huge step forward, for many of our members.

I think that should be the initial priority. Let the TPP take its course, because it will be a bit ahead of this. It will probably give us an opportunity to look at other countries across the Pacific Rim that are outside the TPP and that could perhaps be invited in at a later date.

Mr. Russ Hiebert: You both also mentioned the benefit of labour mobility with these agreements. I'm curious. What degree of labour mobility is in place with the free trade agreements that we currently have with these countries?

• (1715)

Mr. Pierre Seïn Pyun: Business mobility touches on a number of areas.

One area that is important for us would be accreditation of professionals. What free trade agreements can do is put in place a framework, but it would be up to the associations, really, to negotiate mutual recognition agreements for different professions. In some cases, even though the framework exists, we still have a long way to go in having such agreements in place between associations.

This would be an area of importance to us, and free trade agreements can help, but others have to contribute as well.

Mr. Mathew Wilson: Just to add to that, a lot of what we're talking about in terms of labour mobility is within supply chain labour mobility, intra-company transfers or intra-related parties mobility, and so involves tier one suppliers and engineers. We're not talking about agricultural workers or someone not related to a core business on the manufacturing side of things.

Mr. Pierre Seïn Pyun: Work permits would be important as well. When we send people to work on a specific project, sometimes there are limitations as to the length of time people from outside the country can go in to work on projects as specialists. This was an issue in the context of the CETA negotiations, and it's an issue in the context of other free trade negotiations.

Mr. Russ Hiebert: My last question deals with the diplomatic and government relations that you mentioned, Mr. Pyun, in terms of giving an advantage to Embraer and ATI with their market penetration. I know that Mr. Wilson commented on the trade commissioner service, but are you thinking of something beyond trade commissioner services when you speak of the need for greater

government participation or involvement to help get the contracts you're looking at?

What is it that Embraer—obviously, with Brazil it's more evident, but what is it that ATI, for example, does that we don't do and that you need?

Mr. Pierre Seïn Pyun: In the case of ATI, I don't want to oversimplify the reason for their being very competitive in this market. I think they've been active in this market longer than we have, so we have some catching up to do. They have put in place the infrastructure as well to support their business. They have a training centre in Brazil. That's an important piece as well. I think we need to bridge the gap and keep on working hard to be more competitive in the region.

What I was referring to is that in the sectors in which we do business, there is often very strong government involvement. The government can be our customer in the case of rail, most times.

In the case of aerospace, we can play different roles. Regulator is one, of course. In some cases we're competing for business with state-owned enterprises, carriers that are state-owned, that are flag carriers of countries and owned by the government. In some cases we're seeing new entrants into the aerospace business—China and Russia—and we're facing competition from state-owned manufacturers that get very strong support from their government.

In order to level the playing field, what I'm talking about is economic diplomacy at the highest level, because whether we like it or not, this is what is expected, by our customers, by foreign governments, because in our deals, in the sectors in which we operate, constantly business interests rub shoulders with public policy and sometimes with politics as well.

In order to level the playing field—and we very much appreciate all the work currently being done by the government to ensure that we get this level playing field—sometimes we need ministers to express political support for a campaign we have going on abroad. Minister Fast, Minister Baird, and the Prime Minister in some instances, have been extremely supportive of the interests of Canadian firms, including Bombardier.

This is what I was referring to. Sometimes we work with our ambassadors abroad; we work very closely with the trade commissioner service to gather intelligence, to compare notes with them. But I was referring to high-level political support in the sectors in which we operate.

The Chair: Okay.

On behalf of the committee I want to thank you very much for coming forward. Your testimony is very valuable.

With that, Mathew and Pierre, thank you again.

We will suspend as we go in camera. Then we will have a very short opportunity to finish some business.

[Proceedings continue in camera]

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