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Chair

The Honourable Robert Nault

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• (0845)

[*English*]

The Chair (Hon. Robert Nault (Kenora, Lib.)): Colleagues, pursuant to Standing Order 108(2), we are continuing with our study of U.S. and Canadian foreign policy. Good morning to everyone.

We have in front of us today Carlo Dade. He has a large CV, which I'll let you read yourself. Carlo has been here before, so he probably knows this routine better than most. We'll give him an opportunity to make opening comments and then we'll get into Qs and As. Later on, after the first hour, we'll get into a number of other associations and industries affected by this discussion on Canada and the U.S.

Mr. Dade, good morning, and thank you for appearing. The floor is yours.

Mr. Carlo Dade (Director, Centre for Trade and Investment Centre, Canada West Foundation, As an Individual):

Good morning, Mr. Chair.

[*Translation*]

Hello, everyone.

Mr. Chair, I would like to thank the committee for inviting me to appear again.

I have no idea how much time I have, but I am sure it will be enough.

[*English*]

So yes, from western Canada you will get an introduction and a welcome in French.

It is indeed a pleasure to be back here. There's a lot of ground to cover. There was a series of questions, so I'll once again endeavour —and fail—to keep my remarks brief. There's a lot out of Washington today. I don't know if you've heard, but the USTR is going to deliver the letter on NAFTA negotiations to the relevant committees: ways and means and Senate finance. I'll talk a little about that and the TPA process at the end.

Rather than address the nine points today, I thought I'd look at some of the previous testimony you've had on the subject, respond to some of the information you've had, try to fill in some of the gaps, and look to build upon what some of my colleagues in the think tank industry and some of the other analysts have done.

I note that I am once again in front of committee solo. I thank you for that. It's either a sign of great interest or a sign that my colleagues in the think tank community don't want to be sitting up here next to me when I testify. It could also just be dumb luck.

To start, I want to talk about three reasons for optimism, and the opportunities associated with that optimism, in our relationship with the Americans, particularly with the upcoming NAFTA negotiations.

First, I'm actually here as director of the centre for trade and investment policy at the Canada West Foundation. I'm sure that most of you are familiar with Canada West, so I won't go through the history. The foundation is 40 years old. We work for all four western provinces. Our creed is that a strong west makes for a strong Canada. The west is Canada's export engine. We have about 30% of the country's population but over 40% of the country's exports. The success of the export economy of western Canada is crucial for the entire country.

I also bring greetings from my new boss and your former colleague, Martha Hall Findlay. I'm sure some of you shared her as a boss in the past and many of you shared her as a colleague. I think that's really a symbol of how much the west is changing and how much Canada West is changing too.

I have three points for optimism and opportunity and what we can do about them with our relationship with the Americans. The first point for optimism is that when we talk about NAFTA, indeed, in the public discourse, in the media, even in the testimony you've had here at the committee, there's a conflation between North America and NAFTA. I think we need to be clear that North American integration and the larger North American projects or economies are not summed up by NAFTA. NAFTA is one component of North American integration. It's an important one, yes, but it is not the sole component.

This is important especially for us as we look to engage with this new administration. As your previous witnesses in particular Scotty Greenwood mentioned, some of the most important elements, the progress and the achievements that we've had, have not been part of the agreement. She spoke extensively about the Regulatory Cooperation Council. This is probably one of the most important assets we have for improving our ability not just to trade with the Americans but to make products with them and with Mexico, which we export in competition with other trade blocs, such as the EU, the Pacific alliance, and the factories of Asia—Vietnam, China linked to Korea, Japan linked to Vietnam, Thailand, etc. That is not part of NAFTA.

You can also look at our ability to move business people back and forth across the border through the NEXUS program. That was a huge advantage that we enjoyed uniquely for a while with the Americans before they expanded the GOES program. Again, it exists; it's not part of NAFTA.

What's interesting about these initiatives is that they are not subjects of discussion. They are flying under the radar. Not only are they flying under the radar, they're also increasing and strengthening. We're talking about tearing up NAFTA at the same time we're not just talking about but actually moving concretely to link the RCC with the U.S.-Mexico equivalent, to have one regulatory co-operation environment for Mexico. It's a huge competitive advantage for us, and this is proceeding despite the rhetoric coming out of Washington.

● (0850)

The administration down south is talking about building walls on the southern border, but at the same time we're talking about linking SENTRI, the U.S.-Mexico trusted traveller program, with NEXUS. We will have one trusted traveller program in North America heightening the movement of people at the same time we're talking about building walls. This is an opportunity for us if we can lift our eyes up from the text of NAFTA and look more broadly and think more creatively about how to advance our relationships.

At the Democratic National Convention last year in Philadelphia, there was a sea of anti-NAFTA signs—NAFTA in a circle with an arrow through it—and a sea of anti-TPP signs—TPP in a circle with an arrow through it—but I have yet to see there or at any NAFTA protest a sign held up with the words RCC in a circle with a line through it. I've never seen anyone holding up a sign saying down with the RCC.

These are opportunities for us to engage the Americans. In this vein, we've been working with the Bush Center in Dallas on a proposal to create a North American infrastructure bank. The idea is the same: to address a specific problem we have with the Americans to which there are practical solutions, and for which there's a real need, and there's a need on the American side as well as the ability to get them to the table.

I actually did a presentation for the Canada-U.S. Inter-Parliamentary Group. I can talk about this more at length. This is a subject that merits some consideration. When Washington begins to look at its infrastructure problem and at solving it and at how broke the U.S. highway trust fund is, as well as at the inability of northern states to fund basic infrastructure, let alone infrastructure along the border, Canada showing up with solutions and Canada showing up with money may be the entree to solving some of our problems.

That's one point for opportunity and optimism: the quiet, behind-the-scenes initiatives that have sprung up to deal with real problems. Our one potential solution is an infrastructure bank. This is completely different from the Canadian infrastructure bank. There's actually a case to be made for this bank as opposed to, I think, the Canadian bank. There's opportunity and optimism.

The second point is that with all these anti-NAFTA signs, I've never seen at a protest someone carrying a sign saying “down with the Manitoba-Montana treaty on invasive species”, or “let's end the Alberta-Idaho agreement on co-operation on regulation for...” whatever.

The subnational level is hugely important for us. It's rich. It's deep. This is where we really have impact with the Americans. The ability to deal with state-level officials as colleagues, as friends, as co-workers, as equals is hugely important to us. It impacts our ability to influence Washington. As politicians, you know that if you get a phone call from a foreign ambassador or from someone in your riding who can deliver votes or sway an election, which phone call do you take? You take the call, if you're in Congress, from the speaker of the state house, from the governor, from the mayor, from the head of a local chamber of commerce. We have unique access to these people to be able to influence the agenda in Washington.

The U.S. Council of State Governments: Canadian provinces are members. The Pacific NorthWest Economic Region: Canadian provinces are members. We host meetings. We host U.S. state legislators in Canada. The U.S. Council of State Governments passed a resolution opposing country of origin labelling. That was the work of Canadian participation in that group.

I was with Cal Dallas recently. He's a former trade minister for Alberta. Cal was telling me stories about his ability to go to states in the U.S. and talk to his counterparts to actually arrive at solutions to problems before they reached the press. You don't hear about this for obvious reasons. It's a great story in the *Edmonton Journal* if Cal's able to convince California to do something, but it's an even “better story in the *Sacramento Bee*”. Let the Hansard show that I am using air quotes to indicate that “better story in the Sacramento Bee” is sarcastic.

This is an ability we've really underutilized in the U.S. The problem is that our current relations with the United States demand that it's an “all hands on deck” response.

● (0855)

It's an open secret that the Clerk of the Privy Council has gone to the premiers and asked them—pleaded with them—to do more in the U.S. to increase their contacts, to increase their outreach. However, we're asking the provinces to do this at a time when provincial budgets are strained—Saskatchewan, Manitoba, even Alberta. The feds have money and the provinces don't, yet we're asking the provinces to do more.

We have a couple of things on this. We have a proposal out to Western Economic Diversification to set up a fund to co-finance activities and U.S. engagement with the provinces, to augment and increase what they're doing, but to also serve as a point for coordination and information sharing, so we stop tripping over ourselves when we go down to the States. Manitoba bumps into Alberta coming out of a meeting in a governor's office, and the consul general and foreign affairs are scheduled five minutes later. Coordination and financing will enable us to use this vital tool.

Finally, the reason for optimism—I could spend some more time talking about it, given the news from today—is that we are exiting the period in the U.S. of trade policy by tweet, by idiosyncratic whim, by capriciousness on the part of the administration, by responding to every tweet at two o'clock in the morning, by every offhand comment that Secretary Ross makes on CNN or on Bloomberg. The administration is now running into the TPA. There is a set of rules and requirements for the administration to follow Congress's lead on trade. Article I, section 8, clause 3 of the U.S. Constitution, the commerce clause, states that Congress has the responsibility to regulate trade between the United States, between the Indian nations, and with foreign governments. This is clear congressional authority. They've laid out rules for how the administration has to negotiate and what has to be included in negotiations. They've stepped up the requirements not just for consultation, but for the administration to follow Congress's lead.

If you look at what happened back on March 21, Secretary Ross and acting USTR Stephen Vaughn went to the Senate finance committee to talk about renegotiating NAFTA. During the hearings, they suggested that this will count as notification to the Senate to fulfill the requirements in the TPA. The response was a combination of being scolded and being laughed out of the room. Ron Wyden, the ranking Democrat, told them bluntly to go back, read the TPA requirements, and come back when they had prepared a written submission explaining their goals and how they address the priorities the committee laid out.

The next move by the administration was to suggest that acting USTR Vaughn could do this. Again, they were sent back, were laughed out of the room, were told that there was a process. That's why it's taken until today for the administration to actually be able to begin the 90-day period for negotiations with NAFTA.

I stress this because we're seeing Congress increasingly take control. You've had other witnesses who have looked 20 years back to judge how Congress will do and what power Congress has. I'm looking back a month and a half, and what I'm seeing then, what I'm seeing even today, is Congress really stepping up. It's not just that Congress has an advisory role. If you read the TPA, it says the administration has to respond to and make adjustments to trade negotiating policy based on congressional input. There are checks. They can look at the negotiating text anytime. They can look at what we submit anytime. You're going to see a heightened role for Congress and, I think, a rein on what the administration can do.

There are a couple of things on this, things that shouldn't surprise us. We know that tariff quotas were a big issue in the TPA legislation, and yet we were surprised when the Americans brought up supply management in dairy. Martha Hall Findlay has a new paper coming out on supply management. If you are not already familiar with her work, you will become so, increasingly—a great piece of work. We shouldn't have been surprised when dairy was brought up.

Another issue is localization of data. I would flag this for you. The position of the TPA is that trade negotiations have to fight against keeping data in the jurisdiction. The Americans should be able to have data. The data should be based anywhere. I think that's going to be a major issue if they really push it. Again, the point is that we know what's in the TPA. At the end of today, we'll know what's on the Americans' negotiating agenda, and we can stop jumping at every tweet, at every bit of noise that comes out of the White House.

● (0900)

Yes, there will still be surprises. Yes, the administration will still pull changes at the end. What I'm talking about is balance. We've had idiosyncratic tweets and responding to rumour as the only input. We are now getting something on the other side to balance that out. We are getting clarity and some degree of certainty.

Finally, I have one editorial note. We talk a lot in Canada about our most important relationship being in North America. The U.S. is our most important trading partner and political partner. North America is our most important trade bloc. There is a lot of talk about the importance of North America, yet you would be hard pressed—actually it would be impossible—to tell that by looking at our capacity and our ability to do policy research on North America in this country. Independent groups that can do research on North America and have deep, long-standing connections with counterparts throughout North America are the third track of diplomacy.

I can point to half a dozen centres in the U.S. and two or three in Mexico. I can't point to one in Canada. We closed the Alberta Institute for American Studies a few years ago, and with it, our last independent voice on working on North America. Our capacity on North America, strangely enough, exists in Washington, D.C. The Woodrow Wilson institute and Laura Dawson are probably our best asset in terms of work on North America. It's in Washington, D.C. It's not in Canada.

I think that an issue for the future is capacity: repairing the damage done by cutting the enhanced representation initiative and building up our capacity with consulates and consuls general in the U.S. Also, Canadian studies in the U.S. are a huge asset. We have consuls general who are trying to cover four or five states. Our consul general in Seattle has to go all the way to Idaho. Our poor consul general in Dallas—she's doing a fantastic job down there—has to cover Oklahoma, Louisiana, Arkansas, and New Mexico. If you're in the oil business, you're looking at this saying, “Wait a minute. Louisiana, Oklahoma, Houston, and Dallas, with one person? This is insane.”

It's also on the policy capacity side. We don't have one centre on North America here in Canada. How the hell does that signal this is our most important relationship, when the Americans have half a dozen and even Mexico has two or three?

I am happy to talk about softwood lumber, supply management, and the news we're getting out of Washington this morning.

Thank you.

● (0905)

The Chair: Thank you very much.

We're going straight to questions. Mr. Allison, go ahead.

Mr. Dean Allison (Niagara West, CPC): Mr. Dade, welcome back. I'm glad that you're here.

I want to talk about the North American infrastructure bank. You've talked about it in the past. Would you care to expand on it a bit more, in terms of your thoughts about what types of projects would be mutually beneficial in North America?

Mr. Carlo Dade: Let me make the case very quickly. When we use the terms “bank” and “infrastructure”, people automatically go to financing, but the term “bank” is used more in the sense of the Inter-American Development Bank or the World Bank. The bank has a financing function, but it also has an intelligence function and a political function.

I'll make the case for the bank first in terms of financing. The U.S. highway trust fund is broke. I think everyone here is familiar with what happened with the Detroit-Windsor bridge and how badly the Americans cleaned us out on that. That's an issue we're facing across the northern border. The United States simply don't have the money. It's not a financing problem on our side; it's a financing problem on the American side, and we can help them.

On information, we talk about integrated supply and production chains in North America. I've yet to see evidence of this. If you go to any of the trade blocs—the Pacific Alliance, the Asians, the EU—they have information about how they make products together, how they ship, where the critical links in the infrastructure are in these banks. We don't. It's a huge, huge competitive advantage. What's worse, we finance a lot of these other banks. We finance the Inter-American Development Bank. We finance the Asian banks. We're financing our competitors to have this information, and we don't even have it here in North America. The bank would solve this problem.

At the political end, it also would create a permanent structure staffed by Americans, with administration appointees, beavering away quietly in the background on the second most important aspect of North American competitiveness, which is our ability to make products together and to move goods together. It would solve those three issues.

It could work two ways: it could fund things only along the border, a set limit from the border, or it could fund the entire critical chain, all the assets linked to moving products from Canada down through Mexico and back and forth. It would require a great deal of research, which we don't have, to identify how these supply chains work, where the critical links are, and to set up the criteria for how this would work.

What we've created are some ideas of how this could work, and we leave the specifics to the negotiations. I would just add that now is the time to do this. The Americans are talking about ramping up infrastructure. They need help along the northern border, and we can step up. It's not just money. It's our superior credit rating that would also help the Americans. We can also help deal with security issues and other things. When the Americans step up on infrastructure, I think we have a response for them. If they're going to do what they did to us with Detroit-Windsor, we might as well get some regulation and order into the process. If that's going to be the future of our co-operative endeavours to build infrastructure together, let's bring some sanity, some predictability, and some intelligence to it.

Mr. Dean Allison: What are your thoughts on supply management versus heavy agriculture subsidies in the U.S.?

Mr. Carlo Dade: All countries subsidize agriculture, so let's take this away from the Americans, and let's talk about Canada and Canadian interests. Our interest is in having a dairy sector that can compete globally, that can do what Australia has done, what New Zealand has done. Look at China and the booming demand for dairy products around Asia. We want to be able to take advantage of that. We're going ahead with the TPP, I hope, without the Americans. This will give us a huge advantage in these markets, but only if we can take it.

Let's face it, I'm also worried about average Canadians. I'm worried about the poor mother, the single mother, trying to buy milk and products for her children, who's paying three to four times what she should be paying to support farmers, some of the richest farmers. The average value, net worth—net, not gross—of a dairy farm in Canada is $4 million. Cattle farmers aren't that well off. Canola farmers aren't that well off. There are ways to look at addressing this, and it's good for dairy and good for Canada.

A lot of the subsidies the Americans have are on things like sugar. We're not going to compete with the Caribbean. The Americans opened the sugar market. The cotton subsidies are just insane, but that's Brazil's problem, not ours. Our problem is dairy and we can deal with it in ways that benefit us. Forget the Americans; this is about benefiting Canada.

● (0910)

Mr. Dean Allison: Talk to us about the relationship of the executive branch to Congress. From your comments, I take it you feel that Congress will be more circumspect and will probably give the executive branch a bit of a rough ride as it relates to being practical about our real relationship, our integrated markets. I realize when he sends out a tweet on competition and says America's being fleeced again, that's political, but there are realities on the ground. You're telling me that Congress is a little more practical. Give us a little bit on that relationship.

Mr. Carlo Dade: Congress is varied. The difference between the administration and Congress is that you have several interests. It's not one person changing their mind every five minutes; it's a committee like this with different sections of the country, different interests, coming to a conclusion. That's the improvement we're going to see.

The important point here is that Congress has power: article 1, section 8. This is a congressional purview and they've stepped up to really try to, I think, rein in this administration. They're deeply concerned about what they're seeing.

You look at the agricultural lobby and how they responded when Mexico said that they're going to move corn exports from the U.S. to Canada and Brazil. The farm lobby jumped up. You might have seen the piece I wrote saying that Secretary Ross showed up with a couple of talking points, and Secretary of Agriculture Perdue showed up with an armload of charts, diagrams, electoral maps, and farm data. These interests will become more vocal. We already heard Senator Heitkamp of North Dakota talk about grain grading as an issue the administration will have to address.

For good and for bad we're going to see these interests enter the fore.

Mr. Dean Allison: Thanks.

Mr. Carlo Dade: Also, there are the timelines. The administration says it wants to move quickly. It's 300 days statutorily under TPA: 90 days here, 60 days there, 150 days there, 75 days there. You can project this with the U.S. mid-term elections and the Mexican presidential elections, which are hugely important. You get the scenario that it's going to be years at best until we can come out. These are deadlines the administration can't move, only Congress can move, and Congress has shown no willingness to move them.

The Chair: Thank you, Mr. Dade and Mr. Allison.

Mr. Fragiskatos, please.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you very much, Chair.

Thank you for being here today.

I want to pick up on the question relating to the infrastructure bank, but only in principle. You think that with the reasoning behind infrastructure banks and the perspective that says they're necessary in order to really scale up infrastructure across countries and regions it's a worthwhile idea to explore.

Mr. Carlo Dade: The scale-up is part of it. It's the information. With the North American infrastructure bank the financing is a small element that we have with the Americans along the border. The bigger element is information. We talk about integrated supply and production chains. We don't know where they are.

Our competitors in other blocs, when they're deciding where to build a port, a bridge, a border crossing, have access to information that goes beyond the border, into supply and production chains on both sides. They can use that intelligence to improve where they place their infrastructure, and how they build it. We lack this. It's a critical information gap that's a competitive disadvantage for us. That's the main reason for the bank to exist.

On the political side, there's also getting the Americans to a permanent table and not having to worry about whether or not things are going to be built along the border, when they're going to be built, or how they're going to be built.

Mr. Peter Fragiskatos: Again, I want to look at the matter in principle. Some have fears that the involvement of private actors in infrastructure banks poses some kind of danger. Could you touch on that?

● (0915)

Mr. Carlo Dade: With trade infrastructure, so a border infrastructure bank.... I'm speaking only about trade infrastructure, not building sewage treatment plants or parks, but with trade infrastructure, the private sector is the majority funder of trade infrastructure. They are the owners of trade infrastructure. They are the operators of trade infrastructure.

Our previous work, “Building on Advantage”, which makes the case for trade infrastructure in Canada, looked at Port Metro Vancouver. The port is spending the money to modernize the port, but they're also spending money outside of the port on road exchanges and grade separations. When you look at trade infrastructure, it's different from other infrastructure. You really have to make that distinction.

It's not a matter of bringing the private sector in. The private sector is already there. The problem with trade infrastructure, and we've been working with Minister Sohi on this, is bringing the private sector in to play a role in prioritization and decision-making about what trade infrastructure gets built. This is what Australia does. This is what Malaysia is doing. This is standard practice at the G20, advocated as best practice. We're not doing this in Canada.

We're working with Minister Sohi. We've done a series of round tables across the country. We've had round tables with the minister on how to do this.

Mr. Peter Fragiskatos: So it's a common practice. Infrastructure banks are implemented and the sky doesn't fall is what you're saying.

Mr. Carlo Dade: Yes, but again, there are banks that focus on trade infrastructure, and there are banks that focus on domestic infrastructure. We have to be really careful with defining the terms of the conversation.

Mr. Peter Fragiskatos: You wrote a recent article on policy options. You say that Canada ought to pursue real discussions when it comes to trade, and free trade in particular, with China. You also talk about Singapore reopening negotiations with Japan on free trade.

I wonder if you could speak about these particular countries, beginning with China, and the importance of moving in that direction. Also, why do Singapore and Japan, those two states in particular, stand out? Why are they so vital?

Mr. Carlo Dade: This is the importance of the trade agenda for Canada and our prosperity, our future growth. We currently have only one trade agreement on the other side of the Pacific. We are in second to last place on this side of the Pacific in terms of trade agreements with Asia. I think Ecuador and Nicaragua might be behind us, but that's about it. Everyone else has multiple agreements. Chile has nine agreements. Australia and New Zealand have over a dozen. We desperately need to move on the trade engagement with Asia.

We cannot get sidetracked by things like an agreement with the U. K. or looking at an agreement with Mercosur. When we hear this out west, we get livid. We've wasted time. We've lost opportunity. We've lost market share to our competitors around the Pacific because we've wasted time on agreements with places like Honduras. Sorry, but that's.... We need to get caught up in Asia.

One way to do this is to go ahead with the TPP without the Americans. We have a modelling exercise looking at the benefits of a TPP11. It shows that every country that was part of the agreement would gain. Canada would gain the second most after Mexico. The only country that would lose is America. If we take advantage of this, we start taking market share off the Americans around Asia. This has to be a priority for us. Japan is ready to move ahead. Australia and New Zealand are ready to move ahead. This has to be our number one priority if we want to see a real advantage.

It's funny. We're getting calls from Secretary Ross's office asking for a copy of this modelling exercise. The Japanese are asking for copies of this modelling exercise, so it's turning out to have some impact.

As for the other countries, if the TPP11 doesn't go ahead, then let's look at negotiations already started: Singapore, halfway done; Japan, halfway done. Let's look at things where we already have progress through the TPP and through negotiations that have already been started. Again, we are so desperately behind in Asia, and these are ways to catch up. Vietnam is another market that's hugely important to the west in terms of grain and cattle. This is a market that we have to look at.

These are thoughts as to how we can construct a positive agenda for catching up around Asia, and this has to be the priority for the country. We can't continue to fool around with agreements that are going to go nowhere and waste time and resources. It took the Europeans close to 20 years to negotiate with Mercosur. We're trying to negotiate with the Americans. We have to begin thinking about how to negotiate with China. We have the TPP and all these agreements in Asia. We still haven't finished CETA, and we're going to look at trying to spend a 20-year process with a bloc that used to include Venezuela?

● (0920)

Mr. Peter Fragiskatos: Mr. Chair, is there still time?

The Chair: No, there isn't. Sorry, Mr. Fragiskatos.

Mr. Peter Fragiskatos: I'll follow up later then.

The Chair: Just to make everyone's day, the committee very much agrees with your comments. That's why the committee will be going to Vietnam, China, and Indonesia very soon, with the idea that Asia is a very important part of our market. You'll be happy to hear that.

I'll go to Madame Laverdière, please.

[*Translation*]

Ms. Hélène Laverdière (Laurier—Sainte-Marie, NDP): Thank you, Mr. Chair.

Mr. Dade, thank you for being with us again this morning. Your presence is always appreciated.

I understand that the renegotiation of NAFTA will be a lengthy process, that it will take years, and that it will be complicated by mid-term elections, the elections in Mexico, and of course the general political situation in Washington, in view of everything that is happening there right now.

There is another potential factor that you did not mention. I would like to hear your thoughts on the BAT or border adjustment tax.

Mr. Carlos Dade: Oh, yes.

Ms. Hélène Laverdière: The review of the tax system will also have a certain impact. I would like to hear your thoughts on the potential impacts, and also on the likelihood of a measure such as the border adjustment tax being adopted.

Mr. Carlos Dade: What exactly is the tax called? The actual term is something like

[*English*]

“distance-adjusted tax”.

This is a subject on which I'm going to admit to being completely confused. You've heard the old joke about how you'd like to meet a one-handed economist, because an economist will say “on the one hand” and then “on the other”. I can't get two economists to agree as to how this would work, whether it is a replacement for the VAT or it's completely different, whether the WTO will rule on this or not.

What I can say is that it is primarily designed as a revenue enhancement measure in Washington. They have huge increases to defence spending and cuts in other areas that don't equate to the increases they're making in defence, so they would have to enhance revenue. It's questionable as to whether or not revenue enhancement measures would work. You'll see the U.S. exchange rate change and any revenue gains would be short term. Whether or not you can get people to repatriate profits from abroad under this is another question. However, we didn't see this show up in the administration submission for tax policy, so that's a sign that they may be backing away from this.

Again, I'll admit to being completely and totally confused by the distance-adjusted tax and I can't get two economists to sit in the same room and debate. You guys should actually have four economists here, with two on each side, and spend an hour watching them yell and scream at each other about this. Then you can try to come up with your own conclusions.

[*Translation*]

Ms. Hélène Laverdière: In Washington, I had the opportunity to hear an economist, a former advisor to Ronald Reagan, who had a very clear and straightforward opinion. He had a mathematical formula that worked it all out. It was quite interesting to see the reaction of the people in the room: his opinion was not well received.

Mr. Carlos Dade: Yes, I can imagine.

Ms. Hélène Laverdière: I listened to him and took notes in English. I will switch from English into French, as I do too often; my apologies to the interpreters.

Can you provide more information about the trusted traveller programs, the expansion of these programs to Mexico, and their operation, status and how things are progressing?

● (0925)

Mr. Carlos Dade: There are two trusted traveller programs in North America. One is a bilateral program between Canada and the United States.

The other system is managed by the United States and applies to Mexico. Mexico has in fact declined the U.S. invitation to create a bilateral system south of the border.

[*English*]

We have two systems in North America. The Canada-U.S. system is a bilateral system that we have together. The SENTRI system is run by the U.S. for Mexican nationals. Linking the two systems together would allow those Mexicans who have been vetted as part of the SENTRI program to access the U.S. and also to access Canada through the NEXUS program. That's my understanding. You'd have to call in CIC and Public Safety. I've always had difficulty getting answers out of them, but I think that would be a very good point.

If I could also humbly suggest for the committee to look into that because it would also solve some of our problems with Mexico, like the rise of false refugee claimants once again. This is another way to look at diminishing the problem by enhanced use of those who have been cleared by SENTRI for those who have U.S. visas.

In terms of dealing with the problems we have, it also could eventually create a North American space, where people can come into North America, be cleared once, and travel. This is what we're seeing around Asia. With respect to the APEC business travel card, Canada again—I keep saying this—was the last country to adopt the APEC business travel card, after the United States. We fell behind the United States in terms of opening our borders to business people. What's worse—sorry, I'm going on a diversion here—with the APEC card is it appears that we've completely turned over management of Canadians applying for this to the U.S.

I've actually tried to apply for an APEC business travel card. You have to be a NEXUS member, so I applied. I wound up getting bounced to the U.S. global entry system and I filled out things and they asked for identification, but it wouldn't let me use my Canadian passport. I'm binational, so I have two passports and the NEXUS system has my Canadian passport and my American passport, but when I tried to apply for an APEC business travel card, it wouldn't let me use my Canadian passport.

I had to send an email to the U.S. GOES people saying, "Hey, I have a Canadian passport. I'd like to use my Canadian passport. I don't want to use my U.S. passport to apply for the APEC card." I'm still waiting to hear back from the Americans as to whether or not they're going to let me use my Canadian passport to apply for an APEC business travel card.

Again, get the folks from CIC in here and you may want to ask them about that, but don't tell them I said that.

The Chair: It's too late.

Thank you, Madame Laverdière.

We're going to Mr. Saini.

Mr. Raj Saini (Kitchener Centre, Lib.): Good morning, Mr. Dade, and thank you very much for coming. I want to personally thank you for this great graph you sent us. As a science guy, I love graphs.

I'd like to drill down a bit on this graph. In light of the news this morning from Washington, if we roughly follow your timeline, what we're trying to do and what the United States is trying to do is all fine and good, but what we haven't talked about is the Mexican domestic situation.

If you look at the three main contenders for the Mexican presidency, the one who is emerging as a front-runner is Mr. Obrador, from the Morena party, who is anti-trade.

If you look at your timeline, and if we look at the fastest way we can get there, you have six months until negotiations end, on March 1, 2018. That will be within striking distance of the Mexican election. If the domestic election is anti-trade or if the public is anti-trade, then whether it's PRI or the Morena party or PRD, they are going to have to focus.

The best deal we could have gone with is with President Peña Nieto. Even with him, he's going to have to adjust his enthusiasm because he's going to have to pass power, probably to Secretary Videgaray, who is the emerging front-runner.

I don't understand. We're having this dialogue, which is great, but we're not focusing on the elephant in the room, which is the Mexican domestic situation. Could you highlight or provide some commentary on that?

Mr. Carlo Dade: Thank you for bringing that up. This is an issue that's been troubling several of us. There has been one piece in the Canadian press on this, but I'm glad that it's coming to attention. You've read the recent piece we had on the Canada West Foundation blog about this.

This really is troubling for the North American negotiations. In Andrés Manuel López Obrador, AMLO, you have a candidate of whom to say he's anti-trade or critical of trade is an understatement. He has also hinted that some of the reforms that Mexico has undertaken may be rolled back under his administration. It's populist, the populism that we've seen in Latin America before and with which we're quite familiar.

This election in Mexico rolls out July 1. The entire Congress changes. There is only a single term in Mexico. The president will change. This election will take place, generally, starting three months before, so in May.

The earliest you can finish is not March 1, but August 28. Once the negotiations finish, the administration has to give Congress 180 calendar days' notice, so you're looking at the agreement not being signed. Even if you have negotiations that are six months long, the agreement can't be signed until August 28 unless Congress unilaterally decides to waive the 180 calendar days' notice, which is a possibility but I would discount that.

You're looking at the agreement coming out August 28, which is after the Mexican elections. Then you have the period where it has to be submitted for legal scrubs and other things. You're looking at implementing a bill in Congress on September 27. This is right during the lead-up to the U.S. mid-term elections.

You can imagine that you've had an election in Mexico where trade and NAFTA negotiations, because of Trump, are criticized. You've had NAFTA used as a stalking horse, whipping boy, or whatever you want to call it, in the U.S. mid-term elections, and you can imagine the rhetoric that's going to come out of the U.S. on this at the mid-term elections. Every congressperson is going to be fighting for their seat, throwing NAFTA under the bus and saying anything to get elected again. You're going to have a Mexican Congress that will be installed on September 1, in time to hear the debate in the U.S. mid-term elections about this, and which is not going to do anything until a new president comes in, in December.

Yes, I've used some colourful language to describe this before, but “cluster” begins to describe the sort of situation we're heading for.

You're looking, then, at having to wait until the new president is in power. He needs to been in for a while, so you're looking, at best, at the second quarter of 2019 for any real progress to come out. If you miss that deadline, then you're looking at maybe running into the next U.S. election in 2020 and Trump trying to run again, not having got NAFTA through.

The process, because of the election and the interaction between the elections and the timetables.... We're actually thinking about turning this into an interactive thing, where you can move the negotiations back and forth and take a look at different scenarios.

This is something we have to think about. The Mexico we know might not be the Mexico we have after the coming election.

● (0930)

Mr. Raj Saini: The second question I want to ask is about the Pacific. I think that because we have a close proximity to the American-Mexican border, Canadian business has a built-in advantage, especially with the United States. We share the same language, same culture, generally the same set of rules and laws. The one thing right now, if you look at where growth is really happening, it's really happening in Asia and I don't think we're taking advantage of it.

Yes, trade deals are important, but they have to be the right trade deals with the right framework with those emerging economies, not economies that are not doing so well.

I know you've written about this. What can we do to pivot that way? If you look at what Australia is doing, they have not gone around the world saying they're going to sign free trade deals with everybody. They've focused on their part of the world and said they're going to get the best trade deals they possibly can with the countries that surround them.

Because in North America we really only have two countries, what can we do to pivot and go toward the Pacific where the growth is going to probably be the strongest? You could also argue Latin America, but specifically with the Asia-Pacific countries, what can we do?

Mr. Carlo Dade: This is going to seem to counter what I said earlier, but I don't know that there's much that we can do other than open the door for Canadian business by signing good trade agreements, by putting them on the same level playing field as their competitors. The issue we have is that we've been blessed and cursed by access to the fattest, richest, and easiest market on the planet. Canadian business looks around the globe and says,“Why should I go to Honduras to work twice as hard for half the money?” Can you really blame them? Every place after the U.S. is harder. It's more difficult, more distant, and there's generally less money and higher risk. As a result, we become dependent from a logical business decision on a market that is close and easy and very lucrative.

Even in cases with Mexico, we've underperformed in Mexico. Somehow, Canada is third or fourth in the softwood lumber export market to Mexico. Canadian producers continually complain that we're losing the U.S. market, but we've had access to Mexico and we haven't taken it up. Chile has taken the Mexican market from us. Brazil has taken the Mexican market. Yes, housing construction in Mexico is different; it's not that big. The U.S. Softwood Export Council has an office in Mexico because it's that important and that big a market, yet we've chosen to ignore it. Even though we've had NAFTA, even though we've had access, even though we have four class 1 rail lines that run down there, even though we have highways, the businesses in Canada have chosen not to follow up on that opportunity.

It's frustrating at our end, on the trade front, when we talk to businesses about going abroad. The only thing we can do is to provide services for business and trade commissions and other things, and to sign good agreements. Getting business to go, that's not your responsibility. It's not your fault that businesses don't take up the opportunities that are put forward. It's the fault of Canadian business for not going forward to take up those opportunities.

Australia has no choice. Australia does well, because they're so far from the U.S. and they have no choice; they have to do this. We have a choice, and our choice is the easy market in the U.S. The Australians would change places with us in a New York second. They would give up Asia to have the access that we have to the U.S. market.

Let's not be too hard on ourselves, but also let's be cognizant of how difficult the task is ahead of us.

● (0935)

The Chair: Thank you, Mr. Dade.

Let's go to Mr. Levitt, please.

Mr. Michael Levitt (York Centre, Lib.): I want to explore climate change a little bit. Obviously, as you know, for our Prime Minister and government, it's very clear that addressing climate change is a priority, whereas in the tone coming from the current U.S. administration it has certainly not been addressed the same way.

In April, 17 states filed a legal challenge against efforts by the U.S. administration to roll back climate change regulations, like EPA regulations that had not yet been implemented regarding coal-fired power plants. What role will state-level politics play in the shape of U.S. climate change policy? Will we see progress despite federal actions or reversals on these policies?

Mr. Carlo Dade: You need my colleague Trevor McLeod from our natural resources centre. This is his area. I'll just throw Trevor a torch on this one.

You'll see different responses from different states. We see states like California on emissions standards, New York on the climate pact, the greenhouse gas pact. You'll see some innovation from the states and some difference from the states. The larger push to roll back EPA from the federal level I think is going to be devastating to the climate agenda, and the potential to withdraw from the Paris agreement is still on the table.

The President has the ability to withdraw from treaties but he doesn't have the ability to rewrite legislation that Congress enacted to bring those treaties into effect. While the President can withdraw from a treaty, it's an open question in Washington as to whether or not his right to rescind the proclamation that brought the treaty into effect includes the right to rescind laws and changes that Congress passed to bring the treaty about. Even if the President does withdraw from the climate change treaty, can he get Congress to go along and change any laws they may have on the books to implement or to deal with that?

You'll still see a fight, I think, between the administration and Congress, but I don't think it's the same fight you'll see over NAFTA, so I think a lot of folks in Congress are more inclined to follow Trump's agenda. At the state level, you probably will see some experimentation and some difference and we can work with them at the provincial level.

Mr. Michael Levitt: Thank you.

In an article for *Policy Options* last November, you wrote that serious resources and attention need to be devoted to trade education and promotion in Canada. Can you speak to why you came to this conclusion, and what you see as the solution in how we should be educating in Canada?

● (0940)

Mr. Carlo Dade: We spent a lot of time and effort on this with trade commissioners, the Alberta service, the Saskatchewan Trade and Export Partnership, and every province. We spend more resources on this, I think, than the Americans do, or at least we have more actors involved on this than the Americans do.

There are two things. One is continual experimentation with what we're doing. We tend to fund, and we don't really spend a lot of time thinking about experimentation, testing new ideas and new models. The other is to work with businesses before trade agreements are signed. We tend to see this about to be signed; let's rush out and do seminars on CETA. We should be talking to businesses while the negotiations are under way. We do consult with some businesses, but those businesses are already trading. If you want to expand, you need to start talking more broadly as the agreements are being developed.

It takes a lead time of years for companies to develop contacts and context, looking at getting information out and starting to reach out. We have a series of publications coming out on Korea. We're trying a new storytelling method to speak to businesses about the experience of Canadian companies in Korea, not business case studies, not the stuff that the trade export promotion agencies put out, but a more popular style of writing to present lessons. We're trying the experimentation route. That came from a session where I had STEP, the Alberta guys, EDC, and the trade commissioners around the table. Everyone was complaining about their inability to get businesses to take up opportunities. As a result of that discussion, we thought we'd try a new way to tell stories based on this. That's a type of experimentation I think we need: continual experimentation on the trade promotion front and getting to people before the agreement is signed. Let's not wait until it's signed; let's start when we start negotiating and start talking to people.

Mr. Michael Levitt: Thank you.

The Chair: Thank you, Mr. Levitt.

I'll go to Mr. Kent for the last round.

Hon. Peter Kent (Thornhill, CPC): Thanks very much, Chair.

Thank you, Mr. Dade, for your attendance today. Your policy advice is always thought provoking and stimulating.

I'd like to ask you about the request by British Columbia in the late days of the election campaign that Canada impose a ban on thermal coal through British Columbia ports in a tit-for-tat for the softwood lumber dispute, and whether or not Canada should be responding tit-for-tat should there be other initiatives or impositions by the U.S. administration on Canadian economic interests.

Mr. Carlo Dade: I've done several call-in radio shows in western Canada recently, and when the softwood lumber issue comes up, the anger on the part of the people calling in—not just Danielle Smith's show, but also CBC—is real and visceral. People want to cut electricity. People want to cut oil shipping to the United States. People want to stop sending water down to the United States. Yes, people still think the Americans are taking our water. The anger is visceral, and it's understandable.

It's understandable that politicians would react the same way, but I think that sober second thought really shows that this is going to impact not just our relations with the United States but also with Alberta. The ban would not just include Wyoming and Montana, but also Alberta; so thank you very much for a move that would hurt western Canada.

This elicited a strong reaction in the U.S., but you look at our ability to retaliate: thermal coal impacts, as I mentioned, Wyoming and Montana, six electoral college votes. They're very important states in Congress—again, I'm being sarcastic—very important states in the trade negotiations. We're going to anger the Americans for inflicting no damage on them and not changing their minds, but look at what Mexico's done.

Mexico is the United States' largest customer for corn—70% of the corn. On the resolution that the Mexican Senate has on redirecting corn exports from the U.S., if Mexico decides to redirect corn imports from the U.S., that's a large swath of the Midwest, very important states, politically active. It's a signal of the wider damage that can cause.

If you're going to retaliate, you have to do it in a way that's serious. With coal, we're just going to bleep the Americans off for no impact. Mexico, with corn, is scaring the Americans, with impact. That's what you want to see. Unfortunately, we really don't have the same ability as Mexico has.

Mexico can also stop security co-operation with the U.S. If you think there's a crisis on the southern border now, wait until Mexico starts waving folks from Central America through to the northern border, or stops co-operating and banning folks from countries—Pakistan and elsewhere—from entry into Mexico, or stops checking that they have a U.S. visa before they let people in. Mexico has ways to retaliate that we don't because of the difference in our relationship.

We have to be very careful as we think about this. With softwood lumber, our best retaliation with the Americans is the fact that U.S. homeowners are going to be priced out of buying new homes. Every $1,000 that a U.S. home increases in price, prices 153,000 Americans out of the ability to buy a home. It also increases the price of everything in that home. Your box-spring set is made with Canadian softwood, because U.S. southern pine squeaks when you put it into a box set. Everything in that house, not just the house itself, is going to go up. We've seen that impact in Fort McMurray, with our duties on American drywall, and how those impacted the home-building industry. At the end of the day, our integration may be our best defence, not retaliatory measures.

● (0945)

Hon. Peter Kent: Thank you.

The Chair: Thank you, Mr. Kent.

Mr. Dade, on behalf of the committee, I want to thank you very much for your presentation and your graphs for our science guy. It's always useful because it brings back the reality of how the political system works in the United States and the complexities of making major changes, as has been suggested, through tweets by the President of the United States. The outer-lying structure of our discussions is always about being relaxed and calm and not getting too uptight about the process because we have a long way to go.

Mr. Carlo Dade: Could I make one final suggestion?

The Chair: Yes, you may.

Mr. Carlo Dade: If you don't know your colleagues in ways and means, your colleagues in the House advisory committee on trade negotiations, and Senate finance, now's the time to really start focusing on the members of the committee—Lloyd Doggett and others. Get to know those guys one-on-one and build relations with them.

The Chair: Thank you.

Colleagues, we're going to take a couple of minutes to set up for the next hour and then we'll get right back at it.

● (0945)

(Pause)

● (0950)

The Chair: Colleagues, we're going to be hearing from David Podruzny, vice-president of the Chemistry Industry Association of Canada. That should make Mr. Saini extremely happy, because he's into chemistry. Before us as well is Flavio Volpe, president of the Automotive Parts Manufacturers' Association. Welcome to both of you.

As is the normal process, we'll give you the opportunity to make some opening comments and then we'll get right into questions.

Go ahead, Mr. Volpe.

Mr. Flavio Volpe (President, Automotive Parts Manufacturers' Association): Thank you for having me. It's always a pleasure to be here in Ottawa to speak to a committee.

We are talking about North American relations, ostensibly U.S.-Canada relations. I'll give you a little background on the automotive sector in Canada and how connected it is with the automotive sectors of the U.S. and Mexico.

In Canada the automotive supply sector ships 32 billion dollars' worth of goods a year, and we employ 96,000 people. Some of the companies you would know are Magna, Linamar, and Martinrea. There are, however, other companies that are ascendant and important in the new space. We have Ottawa-based companies like QNX, and companies that own the market on global infotainment. We also have companies like Valiant, which is a large Windsor-based tool company now in the midst of M and A activity with the Chinese, which is contextual here.

Canadian automotive parts companies employ 42,800 people in the United States in 150 facilities, as as well as 43,400 in Mexico in 120 facilities. Canadian interests in automotive supply cannot be described geographically to be solely within the borders of Canada, even though probably 95% of our domestic industry sits between Windsor and just east of Toronto.

When we talk about NAFTA and when we respond to cues by the American President about American interests, the commentary usually concentrates on American geographic interests and American companies. Big American companies, however, count on the Canadian parts supply sector and our assembly sector, including but not limited to the Detroit Three. Canada has big operations from the Detroit Three in that corridor, and our supply sector serves many of those facilities, including Toyota and Honda.

The Canadian interest in Mexico is not a reciprocal one. Mexican automotive investment in Canada is limited to Nemak operations in Windsor. Our Canadian automotive market is just short of two million vehicles, and growth as well as retraction is in single digits.

We make 2.4 million vehicles a year. That's down from a peak of 3.1 million vehicles in 1998. The growth market for my members and parts suppliers has been in new OEM investments in the U.S. southeast and in Mexico.

In 1998 we made twice as many vehicles as Mexico. Last year, Mexico made 3.4 million vehicles, and if the President's social media influence doesn't slow the number down, that number should go up to 4.8 million vehicles by 2021.

Mexico is a very important market for Canadian parts suppliers. We send product down the continent; we invest in Mexico, and we employ locals. The same can be said for the U.S. southeast. Traditionally, and very importantly, the parts sectors in Ontario and in the states that delivered the presidency are intricately connected. Ontario and Michigan together make more vehicles than Mexico. They make more vehicles than the rest of the Great Lakes states and more vehicles than the other cluster in the southeast U.S.

I provide this context because the signals we get from Washington from the President and the public exhortations stand in contrast to the interests of our commercial partners in the U.S. American automotive companies are telling their representatives in Congress, their governors, and the administration not to hurt them by thickening the border between Canada and the U.S.

Everybody likes to talk about how many times a part can go across the border. Not every part goes back across the border, but if you think about putting a bolt on an engine block that comes back into a car here and then goes to get finished in the U.S. and is then sold to a Canadian consumer, you start to see how important it is to make sure we don't put up visible or invisible barriers at the border. The same can almost be said on the Mexican-U.S. border, although there is no spot that, from a satellite, looks like Windsor-Detroit.

● (0955)

What we've been seeing and hearing in our in-person visits to American automotive capitals and to American political capitals is that everybody should take a breather. I think the gentleman who spoke earlier talked about a NAFTA process. This will be a long process and the outreach by this government, and—I'll give credit where it's due—the bipartisan approach to that outreach to the U.S. are working in keeping the temperature down. Of note is that in Mexico that temperature is not being kept down. The Secretary of Economy has issued challenges a couple of times, and of course the political tensions between the two countries are different from ours. While they're ready to throw down the gauntlet, I think what we're doing is right and that is to provide the time for industry sectors like ours to go speak to people in Lansing and to go speak to people down in Pulaski, Tennessee, who then go back to Washington and say, “You know, you're going to hurt me if you hurt Canada by hurting Martinrea.” Martinrea doesn't employ any Canadians in Tennessee; it employs Tennesseans.

I'll leave that here. It's a very complex matrix, but the automotive interest.... This isn't 1998 or 2002, and we can't unwind what the result of NAFTA is. NAFTA works for automotive, and we're generally optimistic that the facts will work in this case, because the facts support the American interest.

Thank you.

Mr. Dean Allison: Thank you very much, Mr. Volpe.

We're going to move over to Mr. Podruzny. Sir, welcome, and the floor is yours.

Mr. David Podruzny (Vice-President, Business and Economics, Chemistry Industry Association of Canada): Mr. Chairman, thank you for the opportunity to meet with this committee as our bilateral relations with the U.S., in the context of its new administration, have jumped to top of mind.

The chemistry industry that I'm representing today is an invisible but vital component of Canada's economy. As my friend next to me was talking about back and forth, we're looking at a couple of $4-billion investments in Alberta that will produce the raw materials that become auto parts, and lightweight auto parts specifically, to reduce CO_2 emissions. The value chains get longer and longer and better and better.

Chemistry is pretty invisible as a component of Canada's economy, but it's the fourth largest manufacturing sector with $53 billion in shipments. I've left each of you with an information package that shows our size, our regional characteristics, and some of our subsector characteristics.

Forty billion dollars of our production is exported each year. That's second only to transportation in the whole manufacturing sector. Not many people know that we're the second largest exporter. We import $50 billion. In the Canada-U.S. situation, three-quarters of our exports and two-thirds of our imports are with the U.S., to or from. We're about balanced. It's in the range of about $30 billion to $32 billion each way, and it varies from year to year. Every one of our members trades. We know what trade is about.

Our sector is proud of its highly skilled workforce. Thirty-eight per cent of our 87,000 employees are university graduates. That's second only to the IT sector. Our average salary at just over $80,000 is about one and a half times the manufacturing average.

In my brief time with you today, I want to share several key messages on behalf of the chemistry sector, but before I get to some of the points, I want to get to a couple of the conclusions.

With the U.S. system and the tactics we're observing, let's just agree to understand the terrain. I think you do, from what I heard earlier, but I'd better be on the record. The President and the administration have a role to play, and frankly, an important but sometimes deliberately distracting one. It's well worth separating tactics from lines of authority. There are some rather murky checks and balances in the U.S. governance system, and they're there regardless of what the social media say. Our discussion with key Congress and U.S. Senate leaders suggests that they know their jurisdiction, and they're not about to cede that jurisdiction to this or any other president, past, present, or future.

That said, there's considerable disagreement over the real power and executive authority. Just look at TPP for one example of that. This is not an area where we have expertise, but I just want to say that our concern regarding commercial relations is that we not take our competitiveness for granted. While the new administration is focusing on winning, on facilitating winning, and on reductions of regulatory burdens, what are we focusing on? There's one thing that needs to be obvious to all Canadian policy-makers at the federal and provincial levels, and that is that we can't afford to take for granted our competitive position and our trade relationship with the United States.

The United States administration is deliberately engaging in one of the key tactics in the book *The Art of the Deal*; it is keeping the other side off balance. While it's impossible to attribute motives and tactics, the only thing new is the tendency to talk win-lose in the media, and seriously, is that really new? This is our neighbour. We know them. We know their tactics and we know how they work. It's the job of leadership here to fight for Canada, for investing here, and growing our economy and breaking us out of this anemic sub-2% GDP growth band that we seem to have slipped into.

Let me turn to the specific opportunity from a commercial relations perspective as we look specifically at NAFTA.

● (1000)

First, let's look at the larger global chemistry industry. It's large, fast growing, and deeply interconnected. Over half of world trade is intra-company. Annual sales in this sector are well over $5 trillion U. S., with growth rates well in excess of global GDP. To put that in context, we're 1%. We're about 2.5% in trade, but we're 1% of the global industry. Further, the sector does trade more than any other manufacturing sector, and there we're not number two. Globally, this is the largest trading sector, over $2 trillion, 40% of global production trades.

Free and fair trade in chemicals will remain a very important component of this industry if it's going to realize the contributions demanded from it in the decades to come. We are solution providers in a lot of areas of need-to-address issues.

My second point is that Canada's position within this highly integrated global sector is at an inflection point. I gave you the trade numbers. They are material. However, our relatively balanced trade in chemistry with the United States shouldn't be taken for granted. The availability of low-cost natural gas arising from the shale gas phenomenon has resulted in 300 global-scale chemistry investments, with a value of $250 billion in the U.S. in recent years. These projects are new capacity. They're export oriented and they're likely to displace significant exports from Canada as our biggest market becomes our biggest competitor.

We tracked or matched the U.S. for the last 45 years—I've put the data together—at roughly 10% in investments, but in the last five years, while the U.S. has surged with the $250 billion in new investments, we have sputtered to 1% from 10%.

At the same time, the new administration in Washington has purposed to embark on an aggressive round of reforms in areas like trade and taxation and regulation. We can't predict the outcome of those specific areas. They're going to tackle some things that they find have some local and natural inertias that are very difficult to overcome, but we know they are aggressively pursuing a more competitive landscape for their manufacturing sector.

Taken together, in the absence of an accord made in an appropriate response, we will be second in every investment decision in our sector, and there is no prize for being second. If we're going to retain and grow this valuable sector and our quality of life, we have to shape policy to win in Canada and make a difference.

My final point is that there are good reasons that we have developed strong trade ties with the U.S. I'll be repeating a little bit of what you have probably already heard. There are reasons that we need to make a focused effort to continue what we have in place.

Canada and the U.S. have the same lowest carbon chemical feedstocks in the world. For Canada to seize the opportunity and attract a fair share of significant investments and do it here rather than somewhere else, based on making the same thing from coal, with a carbon footprint eight times what it is making from gas, these are ways in which we can tackle global problems.

We need to respect, recognize, and focus in three areas. We have to be prepared to renegotiate a modernized and better NAFTA. Early in March, our sector, along with the Mexican and American chemical associations, delivered a three party statement to our respective governments on what we like about NAFTA and where we can go further to improve it. I shared a piece of paper on a press release. It's on our public website in both official languages. I apologize for not bringing copies with me.

NAFTA has facilitated the growth of complex supply chains. You've heard about that already. They allow products to cross our border multiple times, sometimes in ways that you might not have thought about. We are now pipelining pure ethane up from gas fields in the United States into Alberta and Ontario, converting it into polyethylene and other materials and shipping it back to the United States, so it's not just raw materials heading south. There are value chains that upset that classic vision.

Also, there are good business reasons for maintaining and growing NAFTA. We share many common economic, social, and cultural characteristics with our neighbour and trading partner.

● (1005)

Trading is easier with a closest neighbour. You heard that earlier. Cost of transactions, logistics, overheads are lower, profit margins.... Dealing with the United States, they pay their bills. We've dealt with countries where rule of law comes in kind of second. It's going to be nice to have a trade arrangement with some of our Asian partners, but let's not kid ourselves. A state-controlled economy is a state-controlled economy, and when urgency is set in place, there are going to be changes in what moves and why. We've had joint ventures where the electricity has been shut off for a week and we just had to deal with it.

I'll make a last point and then open it to questions. Federal and provincial governments have to pay attention to investment competitiveness. Sure, Canada reserves the right to pursue its own policy objectives, but it must take measures to maintain and enhance investment competitiveness overall at a time when competition for investment is, very simply, fierce. There is lots of investment happening. Do we want it to happen here? This isn't about another consultation, strategic table, study, or panel. This is about engaging to win investments right now.

I'll stop and welcome any questions.

Thank you.

● (1010)

The Chair: Thank you very much, both of you.

We're going straight to questions. We'll try to keep it fairly tight with short times.

Mr. Kent, go ahead, please.

Hon. Peter Kent: I have two questions and then I'll cede the rest of my time to Mr. Aboultaif.

To begin, I'd like to go beyond the bilateral and trilateral negotiations of NAFTA and get your reaction, response, and perspective on some of the words of concern and warning from the U.S. administration, from the White House, and from Congress about Canada's negotiation of, on one hand, a free trade agreement with China, which has caused great concern in the United States for several reasons, but also the TPP.

Is that likely to affect the negotiations that either of your sectors anticipate with the United States and Mexico?

Mr. David Podruzny: The way to make sure it doesn't is to have an agreement that ends up being very specific to the parties, and where the benefits of the agreement accrue to the parties and not to people outside. The biggest concern we're hearing has to do ultimately with transshipment and with leakage into the agreement from parties that aren't part of the agreement. That's where some of these arcane little characteristics like rules of origin come into play. To the extent that the value add and essential character come from the parties to the agreement, we will not be allowing this circumvention. That's my simple response.

Mr. Flavio Volpe: Canada is a sovereign nation. I think the expectation in all capitals around the world is that a sovereign nation over which you have no control can go and have any trade discussions anywhere at any given time. You're talking about the sensitivity of having a discussion with China while you're dealing with NAFTA. It is something that.... Let's take a step down from American political interests. American commercial interests are worried about the way China acts as a commercial operator around the world. They've expressed that to us. They've expressed that publicly. It feeds that political discourse. It's relevant, but at the same time, the people who work in economic development in the United States are seeking the foreign direct investment that we're pursuing in Canada.

In my narrow interest of automotive, the golden fleece is the greenfield investment of an automaker. Chinese automotive production is bigger than North American in total. It's also bigger than that of the EU. My counterparts and your counterparts in the U.S. are pursuing those Chinese foreign direct investments for automotive assembly. That usually ends up being a $2-billion investment and $10 billion in purchases a year.

They can't have it both ways, although I think we need to be cautious, and we're using some caution. At least, what I'm hearing is we're saying that we're taking a slow approach in looking at what's possible in China, but our focus is the U.S. If we shifted that, if we were to announce something publicly like, “Here we are, very formal engagements on a certain set of terms”, that might shift the dial. Right now, for our business, if you're not talking to China, you're wasting everybody's time, and so we appreciate it.

● (1015)

Hon. Peter Kent: Go ahead.

Mr. Ziad Aboultaif (Edmonton Manning, CPC): Thank you for being here this morning. I have the productivity charts here and at page 14, it seems that all chemicals have declined about 2% on their overall productivity versus the industrial chemicals that have an improvement of about 1.5% to 1.4%.

The question is to renegotiate NAFTA and to find a better ground for the chemical industry. We need to be more competitive, I guess. I hear from some sources in the industry that we can increase our trade a lot, that we have a lot of room to grow when it comes to the chemical industry.

How can we do that? Where are the markets, and how can we improve our productivity?

Mr. David Podruzny: That's bringing me back to competitiveness. Productivity is a consequence of investment. Productivity is a consequence of the latest technologies and continuous improvement, and the industrial chemical productivity has improved and will continue to improve as we invest.

I am concerned that as the Americans have taken the field in new investment, our productivity numbers are going to suffer as those new facilities come on stream. Productivity is about size and efficiency, and new investment drives that. The response will be that we need to get in the game.

A week ago I brought four companies into town to meet with federal officials. They represented about $12 billion in new investments. They were going to be making a decision between now and this time next year, many of them within a few months. I wanted to make it very clear that the provinces were engaged. The federal government was into consultations and studies and analysis, but not ready to start sitting down and seeing what it takes to match what's happening south of the border. That's where productivity will be addressed.

Mr. Ziad Aboultaif: Thank you.

Mr. Flavio Volpe: He's a chemistry guy, but I'll say something about chemistry productivity. Generally, the biggest advantage we've had over American production, on a 30-year scale, is a predictable exchange rate that's hovered around 80¢.

You'll hear companies in our business, especially the supplier business and the plastics, say that they can't take advantage of that because their feedstock is American, so the American funds choose the currency under which they supply. A prospect of increased supply from Canadian sources tied to productivity and competitiveness also helps the price competitiveness of Canadian parts suppliers.

The Chair: Mr. McKay, please.

Hon. John McKay (Scarborough—Guildwood, Lib.): Interestingly, your last comment was exactly where I wanted to go—

A voice: I was reading your mind.

Hon. John McKay: You were reading the article in *The Globe and Mail* article, and that article talks about the potential of having a currency clause in an agreement like NAFTA which would pretty well destroy any advantage we might have in entering into any agreement, because the way NAFTA has largely worked is that we've been successful on a discounted dollar.

In your observation and your conversations with counterparts, is this a realistic discussion?

Mr. Flavio Volpe: God, it's always one of those niggling pieces of trade discussions, and I'll go back to my sovereign nation comment here. In our business, especially when we're dealing with American customers, they dictate the currency more often than not these days, and we fight back.

Hon. John McKay: Sorry, but to the uninitiated like me, what does that mean and how does that work?

Mr. Flavio Volpe: They'll take a look at the currency prospectus for today and five years out, and then say that the contract is in Canadian dollars, or the contract is in American dollars. You can say no, and then they'll buy from him.

We push back. Big companies can push back. Of course, if you have the productivity and the product innovation, that enables you to say there's leverage on this side of the table. We push back on it, because that's a flexibility that enables us to maintain our competitiveness against, at the very least, the Great Lakes states that we compete with.

The idea of shared currency, there are experiments that have lasted a long time that have worked sometimes, but this has been a Canadian debate since Laurier lost an election there. I would say read *The Globe and Mail* today, but I don't hear anything in Washington.

● (1020)

Hon. John McKay: That is interesting, because if that's part of the negotiations, some formula.... Putting aside the sovereignty of the nation and the wish to have our own currency, if there were some formulization of the discounts back and forth so whatever advantage our own currency gave us was taken out of any agreement and that effectively makes the utility of it—

Mr. Flavio Volpe: I don't know what Stephen Poloz would say about that speculation, but I would certainly say.... I think sometimes we infer a sophistication from some of the commentary which in actual fact is informed speculation. I don't see the Canadian advantage in that, and I'm not—

Hon. John McKay: I don't see any Canadian advantage.

Mr. Podruzny.

Mr. David Podruzny: We can talk about whether we want to end up with a common market rather than a trade agreement. In the investment field, there are certain discounts. Investments, frankly, start the game by being a bit of a coward on this, and they will take a worst case scenario as they go forward. Historically, there's been an exchange rate, but there's been a purchasing power parity comparison between the two countries that has run in that 80% range for a long time.

With individual projects, the companies will see that the currency discretion is narrowed. The companies take a very conservative approach when it comes to a new investment, and if it turns out that we keep the 80-cent dollar as an average going forward, well and good, and if the oil industry booms again and we drop to parity or increase to parity, depending on your perspective, then they take their lumps. We don't control it. There are reasons why the American dollar is a haven, globally too, and we're not going to influence that one. I think we should just take our lumps on this one.

Hon. John McKay: The second question has to do with the country of origin labelling. This has been a bugaboo for years. If you were to advise the government on their approach to tweaking, what would your advice be on country of origin labelling?

Mr. Flavio Volpe: Let me give you the American context on that. The TPP debate finally ended up stumbling on a few pieces. Rules of origin as they pertain to automotive was one that didn't work for us, but worked for the Japanese. The idea was to have a better definition of what originating means, to tighten how they might dispute that and how they might audit that, and then by the way they'd lower it. The argument came from the American-based assemblers trade organization, the American Automotive Policy Council, which told the USTR they might be at 62.5% regional value content, but in practice, given the matrix of products they had to use, the 29 product categories to prove compliance, they really only had 53. So, if they conceded 45 to the Japanese, it wasn't that much of a concession. Hopefully, they got something better in return.

In this context, the commerce secretary and the treasury secretary are informed by that exhortation. In practice, they were really at 53%, so their commentary and the commentary we're hearing from Washington and from our commercial partners is the administration will be seeking to tighten those rules of origin and how we determine origination, tighten tracing requirements and tracing rules. We're going to try to get to 62.5% because they think they'll be able to repatriate some of the capacity there through that.

I don't want to generalize for Mexico, but Canada is a very compliant trading partner, at least in our business. Our businesses generally are looking at the spirit of the law which is, I think, a higher standard than the letter of the law and of the agreement, so generally we'd be supportive of that. Tighten it; no problem. I could tell you where the stuff comes from.

● (1025)

Hon. John McKay: Where does the stuff come from?

Mr. David Podruzny: There are a couple of things here.

First of all, on the rules of origin, our association, working with the European association, had an exchange of letters with the chief negotiator during the CETA to suggest that we needed an easy way to know when origin was achieved. What we proposed was something that could be understood by the people doing the transaction rather than by the government. As much as possible, we tried to take constructed value out of the equation. That was what the European administration wanted but not what the companies in Europe wanted.

We put together some proposals for rules of origin that would result in.... If it were a chemical reaction, we changed the essential character. It's something different. Origin is achieved. We put forward some very simple rules.

We're in the process now of doing something similar with our counterparts in Mexico and the United States. While we have a statement supporting free trade among the three countries, now what we're getting into is looking at the rules of origin and what they should look like in the dozen chapters that constitute chemicals out of the hundred chapters of the harmonized system of global trade.

It's important that the companies undertaking transactions and trading have some idea of how they're going to be treated, whether the goods qualify or not, and so the rules need to be transparent enough and simple enough that they don't allow someone in commerce to construct a value and say, “No, no, you don't qualify anymore.” This has to be transparent.

Our American counterpart association recognizes that if they have $250 billion in new capacity coming online, 80% of which needs world markets, they need to be looking outward and not inward. This isn't protectionism. This is about opening up trade. Their rules of origin will be our.... We'll have a common proposal.

There is one other aspect to this, which is the origin labelling. With fungible goods, we haven't figured out a way to stamp “made in Canada” on each molecule yet, so a paper trail is still required. But I have to tell you, the rules in NAFTA are sufficiently opaque that some of our members choose to pay the World Trade Organization duty, the MFN rate, rather than going through the paper trail of proving origin in Canada. Improving the NAFTA to have better transparency is something we want on both sides of the border.

The Chair: Thank you.

We'll go to Madame Laverdière.

[*Translation*]

Ms. Hélène Laverdière: Thank you very much, Mr. Chair.

I would like to thank the two witnesses for being here today.

I will begin with a question that is not really related to the subject of our study, but I cannot pass up the opportunity, Mr. Volpe.

You talked a lot about the number of vehicles manufactured in Canada and in Mexico, the integration of the production chain, and parts. I think there is a significant increase in hybrid and electric vehicles. How is the parts sector adjusting in particular? Has it been a difficult process or is it still under way?

[*English*]

Mr. Flavio Volpe: I'm sorry. I'll respond in English.

The electric vehicles, connected vehicles, autonomous vehicles always have wheels and doors and steering wheels—well, some have steering wheels—and all the different accoutrements that come with a regular vehicle. The parts sector in Canada, specifically the IT side of it—Toronto to Waterloo, and a very good node in Ottawa—together with the leadership of some organizations in the Montreal area, private and public, have been pushing for the marketplace adoption of these vehicles. As with anything on product planning, it's what the market looks like for it. Currently the market in Canada is less than 1%. It's growing at a decent growth rate, but the absolute numbers are 11,000 electric vehicles last year out of just short of two million sales.

Incentive programs have helped in the provinces, but they won't make a significant dent. The significant market share would be 5% or 10%. It has to come from the market itself. The products that are available, and they are not made in Canada, are things like the Chevy Bolt, where the MSRP is $44,000, but the physical experience for the customer is not $20,000—and my apologies to General Motors—better then a very well-apportioned Chevy Cruze.

You have first adopters. You have people who believe in offsetting their GHG output. Canadian parts suppliers are happy to fill bids for those components if those main OEMs decide that yes, there is a market for 200,000 of them this year. And the transition is quick, but it's also a very good opportunity for Canadian automotive technology companies that were non-traditional players and have moved into it from the IT sector.

● (1030)

[*Translation*]

Ms. Hélène Laverdière: Thank you very much.

My next question is very broad; I am going from the specific to the general.

You said that the renegotiation of NAFTA will bring greater transparency, which is good news. We know the renegotiation process will be very lengthy. On the whole, what are your greatest hopes and fears regarding the renegotiation of NAFTA?

[*English*]

Mr. David Podruzny: We look on the renegotiation as an opportunity to take the agreement and what has been a very good working relationship and economic relationship, into the 21st century. Twenty-three years ago, NAFTA was state of the art, as our little three-way statement went with the other associations. That was before the Internet. Things have changed. Now we need an agreement that has aspects of trade that didn't exist back then. We need to include trade in services. We need to include trade affiliated with the movement of goods, after-sales service. We need to be able to move global experts around and across borders and take special teams that are intra-company and move them back and forth.

There are aspects that need to be improved. That's what we would like to see. Use CETA, TPP or other agreements as models, if you like, but even go further. We're talking about a neighbour where we have a lot of cultural similarities. I was involved back when I was in government with the Canada-U.S. agreement and we had to actually compromise a bit when we went to NAFTA.

There's an opportunity here to simply make this the best free trade agreement in the world, and let's go at it with that kind of attitude. This isn't about protectionism. This is about opening up within a group of agreeable parties. Let's use it as an opportunity.

Mr. Flavio Volpe: I'll be brief but to the point. The biggest risk is a politicization of the triggering of the negotiations based on ideology that isn't weighted by fact.

As a specific example, we'll talk about rules of origin. We agree that the current scenario for NAFTA works for Canada and the U.S. There had been some chatter about a U.S.-specific regional value content floating out of the U.S., not here, as an instrument for repatriation of manufacturing to the U.S. That doesn't work for us. It actually doesn't work for our American partners and their American interests. They rely on a supply matrix that sources components from the most reliable and efficient places.

One opportunity is for an updating of the agreement to include in the tracing components things such as information technology that weren't in the original draft 25 years ago. If as an assembler you're able to use some of the IT spending on investment in the componentry to show compliance to 62.5%, I think companies in our technology corridors will be first in line, side by side with Silicon Valley. I mean that. The Toronto-Waterloo corridor in automotive IT, and Ottawa now, is a real rival for Silicon Valley.

As well, there are definitions for H-1 visas based on the types of businesses that were extant in 1994 that have now evolved. A lot of our business means shipping specialists back and forth very quickly to work on acute problems or acute opportunities. Sometimes they have to shoehorn themselves into electronic componentry definitions when they are really on the coding side.

● (1035)

[*Translation*]

The Chair: Thank you, Ms. Laverdière.

[*English*]

I'll go to Mr. Sidhu, please.

Mr. Jati Sidhu (Mission—Matsqui—Fraser Canyon, Lib.): Thank you, Mr. Chair, and thank you both for being here and sharing your knowledge with us.

I have three questions on chemicals. As you know, the Government of Canada is currently consulting on how best to manage confidential business information under the chemicals management plan. The word “transparency” came up a couple of times. What are your thoughts on keeping the transparency, as well as the industry's protection of chemical information? Is there a balance between the two?

Mr. David Podruzny: It isn't my first area of expertise by a long shot, but my colleagues who are working on the chemical management plan inputs from our association are just down the hall, so I do overhear the importance of confidential business information.

We have ways of sharing information and keeping the information confidential. The government has spent a long time at the public service level engaged in ways to protect confidential business information. There's a difference between knowing and having the information to make good decisions on health, safety, and the environment, on the proper treatment of chemicals, and transportation, and so on, and being obliged to release it. There is a whole series of rules and regulations on how to protect confidential business information. We have a lot of confidence that this government knows how to protect that information and respect it. It then comes down to being credible in what you claim to be confidential versus what is already publicly available.

We are strong supporters of the chemicals management plan and how it works. We also have a very strong ally, coincidentally, in the United States. They would like to see the Canadian CMP used as a model around the world and as a counterpoint to the European REACH program, which we frankly find is the wrong way to go at things. However, both systems require protecting confidential business information as it is that which allows the private sector to differentiate with their products and to have comfort in compliance with regulations, that in doing that they are not going to be giving something up of real commercial value, because it will be protected by the public service system and not released.

I think we have a way of making the system work. We just have to be diligent.

Mr. Jati Sidhu: Furthermore, the government has spoken potentially of aligning more with the U.S. Environmental Protection Agency when it comes down to reviewing confidentiality claims. Do you see how the EPA process compares to the Canadian process?

● (1040)

Mr. David Podruzny: I'm sorry but I don't know enough about that specific area on CBI, confidential business information, to comment. I have a colleague, and if you like, we'll exchange cards, and I can put him in touch with you.

In terms of working with our American counterpart in this area, I know there is a lot of co-operation going on. There is some concern that we don't get too tied up in a whole series of legal hoops. Bear in mind that the U.S. system is much more on legal interpretations and fighting things in court. Our view is sometimes that is after the horse has left the barn. You're going to be fighting to say, “We need compensation because you released this information.”

We've had a good working relationship within the public service, and on access to information requests, the rules are clear on what they can't reveal, and the government is good at what they don't reveal. That may not be particularly pleasing to some of the press, but in the end, it respects ownership and value of property.

Mr. Jati Sidhu: This is the last question, Mr. Chair.

The trade between the two countries from 1994 has gone up from \$20 billion to \$63 billion, or even more. How do you see Canadian companies benefiting from this? Are we going to create more employment in Canada?

Mr. David Podruzny: Our employment has gone up at the same time.

The other thing is we have increased our multiplier effect as a sector. Statistics Canada is telling us that our multiplier effect is now just over five; for every job in the chemistry industry, we're creating five more. We are one of the largest purchasers of IT in the country. It's simply a reflection that, with the economies of scale you can achieve, you're going to be able to grow, have higher productivity, and convince foreign investors.

When I mentioned the \$250 billion going to the U.S., over 63% of that is direct foreign investment. That's the characteristic of what we're bringing into North America because of natural gas, because of the shale gas phenomenon. We have as much of it as the U.S. has, so it's just a matter of winning those investments and using that gas to make stuff rather than just burn it for its energy content.

Mr. Jati Sidhu: You did talk about adding value to the product before it leaves our shores. Do you see industry going more toward the direction of adding value?

Mr. David Podruzny: I hope so. We, as a sector, like to sell the fact that value chains are what we're about, whether they are inorganic minerals, energy products, or biomass. We have members that take the raw material, which is a resource in Canada, and add 10 times to its value. We take it to a level that none of us see here, a mound of polyethylene pellets or polypropylene pellets, but somebody else takes that and makes an auto part out of it, or a Frisbee or a kayak, and there the value added is a hundredfold.

If we have some basic competitive comparative advantage, we can do it here. We have the resources in this country. We are adding value to them. We have companies—to use our oil sands example, because that's always a classic—that go into the oil sands and contract to reduce water consumption as a chemistry service or to capture all the SO_2 emissions, convert them into sulphur and fertilizer, and ship it to China as a fertilizer. These are chemistry-driven solutions.

We have other companies that have taken what were being used as off-gasses in making bitumen, and rather than burning them to make more bitumen—it is very rich in chemical feedstock—they are pipelining that down to Fort Saskatchewan, converting it into petrochemicals, and shipping dry gas instead—it doesn't have any of the liquids in it—to burn for their energy needs. That's saving a half million tonnes of CO_2 emissions every year for those oil companies. That's a good thing to pursue in seeking to add value.

To add value means we need markets, and that's where the NAFTA comes in.

● (1045)

Mr. Jati Sidhu: That's good to hear.

Thank you, Chairman.

The Chair: Thank you very much, Mr. Sidhu.

On behalf of the committee, to both of you representing the associations, this has been a very good process and a good hour of listening, too. This is a long process for us. We want to thank you.

As always, I try to remind the witnesses that if there is other information they'd like the committee to see, please feel free to send it along. Both of your associations and industries are very large and very important to Canada. Thank you very much.

Colleagues, we're going to take a one-minute break, and then we're going to do a bit of work in camera. It will take just two minutes and then we'll be done. We'll just clear the room and then we'll go right into that business. Thank you.

[*Proceedings continue in camera*]