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Chair

The Honourable Robert Nault

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● (0845)

[*English*]

The Chair (Hon. Robert Nault (Kenora, Lib.)): Colleagues, we will get started this morning. Pursuant to Standing Order 108(2), we are studying United States and Canadian foreign policy. Before us today is the Canadian Steel Producers Association, and Joseph Galimberti, the president.

Did I pronounce that properly?

Mr. Joseph Galimberti (President, Canadian Steel Producers Association): Yes, that was good.

The Chair: We also have the Canadian Manufacturers & Exporters. Mathew Wilson is the senior vice-president.

Welcome to the committee, gentlemen. I'm pretty sure you guys are used to the process and how it works, so we'll give you an opportunity to make some opening comments. We have an hour, so we'll get into questions right after the presentations and rotate our way through them.

I don't know who has decided to start. I will leave it up to either one of you to get started, and we'll go from there.

Mr. Mathew Wilson (Senior Vice-President, Canadian Manufacturers & Exporters): Why don't I start? Is that okay?

The Chair: Sure, that sounds good. Go ahead.

Mr. Mathew Wilson: The reason is that I've seen Joseph's testimony and I think I'll be a bit more general and we'll play off to each other, but he'll key in on a few of the more specific elements that I'll mention in passing.

The Chair: That's perfect.

Mr. Mathew Wilson: Good morning, Mr. Chair and members of the committee.

Thank you for inviting me here to speak on behalf of Canada's 90,000 manufacturers and exporters, and our association's 2,500 direct members, to discuss Canada's relationship with the United States.

CME is Canada's largest industry and trade association, with offices in every province, and is the chair of the Canadian Manufacturing Coalition, which represents roughly 55 sectoral manufacturing associations. More than 85% of our members are small and medium-sized enterprises representing every industrial sector, every export sector, and all regions of the country.

Manufacturing is the single largest business sector in Canada. In 2016, manufacturing sales surpassed $600 billion for the third consecutive year, directly accounting for 11% of Canada's total economic output, while directly employing over 1.7 million Canadians in highly productive, value-added, high-paying jobs. With the base in the NAFTA region, manufacturers are also directly responsible for the majority of Canada's exports. In 2015 and 2016, manufactured goods reached nearly $350 billion in exports, an all-time high, accounting for almost 70% of all Canadian exports. Nearly 75% of those exports go directly to the United States.

Much of this trade is due to the deep integration of manufacturing operations across the NAFTA region, and in particular between Canada and the United States. This integration has created a unique relationship for our countries globally. We do not simply trade goods with each other—we build things together, innovate together, and compete with the world together.

Canada's relationship with the U.S., in most ways, is a model upon which all relationships, especially trade relationships, can be judged. It has helped increase the standard of living of all participants. It has strengthened industry by combining the talents and expertise of both markets, creating bigger markets at home and strengthening our combined competitiveness globally. No other relationship that Canada has can compare to the historical, current, or future importance of this one for our economy and our citizens.

Securing and expanding this relationship must remain the single most important priority for Canada in dealing with the new administration. While there are many uncertainties in this regard moving forward—not the least of which are potential border taxes, increased protectionism such as Buy American, and NAFTA renegotiation—we also believe that there is great opportunity for Canada and for Canadian industry, if it is efficiently handled.

Since the signing of NAFTA nearly 25 years ago, the business world has changed dramatically. NAFTA itself created much more competitive and global industries and spawned almost unimaginable levels of integration and flows of people, services, and goods across our borders. China rose from almost nothing to an industrial powerhouse competing for customers, investment, and market share against Canadian and U.S. companies. New technologies have emerged that have reshaped the way we live and work. Almost none of this was contemplated when NAFTA was signed.

These changing realities are why CME has been working constructively with the federal government for years on avenues to improve that framework. Efforts like the border action plans of the 2000s and the Regulatory Cooperation Council and the Beyond the Border agreements of the 2010s were aimed directly at improving our common manufacturing platform, because modernization of the trade relationship between Canada and the U.S. was not an option.

Now that opening the agreement is a political reality, we should look for ways to cement improvements that support the economic base of NAFTA. To help prioritize this, the CME is surveying its members to identify priorities for modernization and improvement of the Canada-U.S. relationship. While our survey is ongoing, I am pleased to share with you an overview of the responses as they currently stand.

As a starting point, the overwhelming priority for Canadian industry is to maintain market access and uninterrupted supply chains with the U.S. While companies want improvements, they are also very concerned about a renegotiation that may lead to worse economic outcome through more restrictions, barriers, and protectionism on imports and exports of people, goods, and services.

On specific measures for improvement in the relationship, the priorities mainly stem from the deep level of integration and the volume and value of the trade. Improved customs processes to speed up border transactions and eliminating uncertainty through reduced red tape for both people and goods rank as the top priority. Following that, companies are looking to maintain effective dispute resolution processes, improve regulatory co-operation and alignment, and take much stronger coordinated trade action on the dumping of goods from other markets.

Many of these priorities are already included in the existing Canada-European Union economic and trade agreement framework and were being negotiated as part of the TPP. We believe they could create a framework for modernization of our trade relationship with the U.S.

At the same time, the relationship between Canada and the United States is fundamentally different from those represented by other trade agreements. We believe that if Canada can come to an agreement on these priority areas with other, largely new trading partners, we should be looking to go beyond the commitments with our NAFTA partners, and especially the U.S.—for example, expanding the RCC to implement a mutual recognition agreement on regulations or strengthened perimeter coordination of trade rules, such as illegal dumping.

● (0850)

In summary and conclusion, our economic relationship with the U.S. is paramount, and we must work aggressively to strengthen and grow integration while there is an opportunity. We don't simply trade goods with the U.S., but rather we build goods together and compete with the world together. And while there are significant uncertainties and concerns, we believe that with the right approach our integrated economies can be strengthened and increase global competitiveness to drive job creation and economic growth at home.

Thank you again for inviting me here today. I look forward to the discussion.

The Chair: Thank you, Mr. Wilson.

Mr. Galimberti, go ahead, please.

Mr. Joseph Galimberti: Good morning. Thank you to the honourable members for the opportunity to present today on behalf of the Canadian Steel Producers Association.

We represent Canada's $14 billion primary steel production industry. Our producers are integral to the automotive, energy, construction, and other vital industrial supply chains in Canada.

I would like to start my remarks today by providing some context in regard to the currently balanced and mutually beneficial nature of the Canada–U.S. relationship in steel. Canada and the U.S. enjoy a complementary trade relationship founded on the fair market principles embraced in both jurisdictions.

In 2016 more than 10 million tonnes of steel was traded between our two nations, with a market value of over $8.8 billion. These are U. S. dollars, by the way. Canada shipped $4.4 billion worth to the U.S and the U.S. producers shipped $4.45 billion worth to Canada. So it's extraordinarily balanced.

Steel continues to be a major export commodity from the United States into Canada, and supports significant economic activity and employment in America's steel sector. Last year 50% of U.S. steel exports came to Canada, which accounted for approximately 30% of Canada's domestic market. Additionally, significant volumes of raw inputs for Canadian steel production are sourced from U.S. suppliers. Approximately $1.5 billion of iron ore, metallurgical coal, scrap steel, zinc, and other metals were purchased by Canadian companies for processing into steel in 2016. Beyond the value of the commodities themselves—and I know that later today you will be hearing from the port authorities, who can speak to this as well—the economic activity and transportation associated with those raw materials contribute significantly to the economies of both countries.

Without question, American employment and industry are supported by the ability to access fairly traded Canadian-made steel, and any disruption to our well-established, heavily integrated, and mutually beneficial supply chains will create unintended economic consequences on both sides of the border.

Several steel producers maintain facilities and employment in both Canada and the United States, with their shared supporting additional investment and expansion. Integration also facilitates timely delivery of products, which meets complex customer requirements, allows for specialization in market segments, maintains appropriate economies of scale and, importantly, supports a common competitive defence against dumped and subsidized imports.

Mutually assisted defence against unfairly traded steel is critical in the Canada–U.S. context. As we have known for some time, dumped and subsidized steel—primarily from China—is justifiably the United States' top international trade irritant.

Global excess production in steel has now risen to nearly 700 million tonnes annually. The People's Republic of China, through a variety of state supports, by itself now maintains more than 425 million metric tonnes of the global surplus—that is almost 30 times the size of the entire Canadian steel market—despite declining demand in China. Simply put, that steel has to go somewhere.

The price deterioration and market instability associated with that illegal trade has contributed significantly to our industry's challenges. This is hurting North American families, and capacity utilization and employment are under threat throughout North America.

To that end, since 2003, NAFTA governments and the NAFTA steel industry have worked through the North American Steel Trade Committee to demonstrate our shared commitment to combatting market distortions in the steel sector, to further collaborating between our steel industries, and to preserving our fair and balanced trading relationship.

We have worked together within the NASTC to develop strong and coordinated positions on issues in multilateral settings of importance to steel, including the OECD steel committee and WTO rules negotiations. Moreover, we have used the NASTC to track developments in certain steel-producing countries for the purposes of identifying and addressing distortions in the global steel market. This is including the submission of joint comments on China's proposed changes to its steel industrial policies.

I mentioned the OECD steel committee. We're also active partners with the United States there and, through that forum, have supported the establishment of the G20 Global Forum on Steel Excess Capacity, from which we share an expectation that an eventual permanent reduction of excess capacity and government interference in the sector will follow in the near term.

● (0855)

However, until that time comes, we fully support appropriate domestic and multilateral action to address unfair trade. I would highlight, in that context, the recent establishment of a trilateral customs steel enforcement dialogue among Canada, the United States, and Mexico to facilitate coordinated compliance efforts and information sharing regarding the enforcement of anti-dumping and countervailing measures on steel products.

Despite all of our best efforts and collaboration, continual vigilance is required to make sure that Canada's steel industry is not negatively affected by sweeping U.S. action to defend the interests of its domestic producers. To that end, I would specifically note that it is essential that Canada secure national consideration in the Department of Commerce's ongoing section 232 national security investigation on imports of steel; in the department's process on the construction of pipelines using domestic steel and iron; and as regards the department's ongoing processes on the enforcement of current Buy American policies. In each instance, the Government of Canada should continue to rigorously defend the interests of Canadian steel producers and steelworkers to ensure that no adverse consequences result from direct action taken by the United States, and to make sure that our market is not unduly exposed to the diversion of foreign product that would result from U.S. action. Without positive outcomes on these three consequential investigations, the health of the Canadian steel industry is at risk and any potential benefits to industry that would result from a NAFTA modernization would be effectively neutralized.

In closing, I would again note that the Canada–U.S. relationship in steel is defined by mutual benefit and fairness. The United States, I would note, has not filed a trade complaint against Canada on its steel products since 2002. Preserving that relationship while collectively addressing damaging, unfair global trade in steel should be our shared focus.

Thank you very much for your time. I'm happy to take your questions.

● (0900)

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

We're going to go to Mr. Allison to start off.

Dean.

Mr. Dean Allison (Niagara West, CPC): Thank you, gentlemen, for being here today.

My question is for you, Mr. Wilson. I've always appreciated what your organization does and some of the suggestions you've always made to all governments about how we could be more competitive. In Niagara we have probably about 1,000 manufacturers. Even though we got gutted, as everybody else did, and lost a lot of the big ones, the biggest challenge is that most of them have under 10 people; they're small shops.

My question is this. What do you see as our competitive advantage? Maybe another way to put it is how can we compete with the U.S.? What should we be doing and what are one or two policy items we could look at to make us more competitive? We have higher energy costs here in Ontario than there are in the States. In the States they have all kinds of incentives, locally and regionally, etc. How are we going to compete, or what could be our competitive advantage as we move forward in trying to grow those SMEs?

Mr. Mathew Wilson: First off, I'd say not just in the Niagara area but across the country one of our structural problems, frankly, in the industrial sector we have in Canada, despite the overall size of it, is that 90% of the companies across the country have fewer than 15 employees. They're really small, and so their ability to compete for investment, for market share, is really hampered by their own size. I know one thing that we're working aggressively on with the government today, and we have been for years, is competitiveness and helping companies scale up and grow. That's really critical. Whether that's for the U.S. market, the Mexican market, or beyond, that is really important.

There are a couple of key things here. Certainly the domestic competitiveness and the investment climate that we see within Canada are paramount to our members right now. We're looking at rising costs pretty much across the board, and not just in Ontario but across the entire country. In the meantime, if we look across the border into the U.S., there are massive corporate tax reforms coming through and regulatory reforms coming through that will dramatically decrease the cost of doing business.

There are two things I'd say. First, our advantage is people. We have our education system. While we complain about it and say it needs to be better—I think we all agree it needs to be better—it's still better than most. The talent that we turn out in Canada is a real advantage. It helps, especially as we're moving into a much more digital economy and advanced manufacturing technologies. It will be an advantage that, for small and large companies, is critical.

On the downside we need to make sure that our structure, the cost structure within Canada remains competitive so we can attract investment. It's very easy right now for companies of all sizes to move into the U.S., because that is the primary market for a lot of products. They're getting massive incentives, as you mentioned, at the state and local level, things that aren't available in Canada, and so we need to take a look at that.

One thing we're working on with the government now, for example—and it was announced in the budget—is a complete program review. It will look at all the investment supports mechanisms to make sure they are more competitive, especially for smaller-sized companies; to make sure they can get the supports they need; to make sure the government programs such as BDC and EDC and the crown corporations that are there are actually aligned and are supporting small businesses. Often, they're really not doing as much as they could be doing. That process and going through that will be really important.

The other piece of it that's really important is the promise of a tax review and tax competitiveness review. There's going to be a regulatory review coming along as well. All of those things that will happen this year in Canada, in lock-step with the U.S. reviews, will be really important, so that we don't lose sight of that competitiveness factor, and so that we do move along in a fashion that allows Canada to maintain an opportunity for attracting especially foreign investment but also domestic investment.

Mr. Dean Allison: I'm going to turn over the rest of my time to Mr. Kent.

Hon. Peter Kent (Thornhill, CPC): Thank you both for attending.

Mr. Galimberti, given your cautions about maintaining bilateral balance with the U.S. industry and your concern about the overproduction of Chinese steel, are you indirectly leading us to a suggestion that perhaps the Canada-China free trade agreement should be put on ice until completion of the renegotiation of NAFTA?

Mr. Joseph Galimberti: I think there's an inherent risk in elevating any kind of trade relationship beyond our relationship with the United States. The U.S. is going to be our primary trade partner. That is a reality. I don't know that there would be much wisdom in taking steps that would undermine that.

We're not opposed to a negotiation with China. What we would say is that we know the Chinese steel sector is massively state-owned, state-subsidized, and state-funded, and that they maintain tremendous overproduction. They do this as an employment and social program, and also as an economic strategy to bring manufacturing to China. We cannot enter this negotiation naively. Any negotiated free trade agreement should have benefits to Canada. We specifically believe there should be benefits to Canadian manufacturing: keep jobs here.

● (0905)

Hon. Peter Kent: What advice do you have for Canadian multinationals, or Canadians doing business abroad and purchasing steel? I'm thinking now of the stacks of rusting steel pipe in the United States for the XL pipeline, which was purchased at a very low price from India.

Mr. Joseph Galimberti: Canadian companies produce very high-quality steel. We do it fairly. Countries do not take trade actions against us. We are not dumping, and we are not subsidising.

I mentioned 2002, so it was a long time ago that there was a trade complaint out of the United States. We continue to work with customers to ensure that those relationships are preserved, and that when you order steel from a Canadian company you're going to receive it on time, it will be of the highest quality, and you're not going to be paying a duty or a tax that you didn't expect.

Hon. Peter Kent: Coming to the U.S. concerns about a Canada-China trade agreement being a back door for dumping, and your concern about the overproduction in China, is dumping as it exists today a matter of stiffening enforcement and inspection?

Mr. Joseph Galimberti: Yes.

The government has taken steps in consecutive budgets to strengthen our trade remedy framework. That was to allow for increased accuracy and speed in terms of investigation to give CBSA the tools they need to make sure they're properly assigning duties and have the ability to investigate circumvention schemes, which we think is important. Certainly more can be done from an investigation perspective. That's why we were happy to see the trilateral agreement between the U.S. and Mexico. We really feel that as fortress North America in this regard, we can benefit from it.

No free trade negotiation should negate, in any way, our ability to enforce fair trade. If you're talking about weakening our trade remedy system, that disrupts not only our trade relationship with the United States, but everyone else with whom we have a trade agreement. You cannot advance one country's priorities or negate your domestic ability.

The Chair: Thank you, Mr. Kent.

Mr. Fragiskatos, please.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you to both of you for being here today.

Mr. Wilson, on May 9, you appeared before the committee on international trade. You called NAFTA “a model for which all trade agreements should be judged”. Then you went on to comment that if it were to be renegotiated in some shape or form, there should be certain “measures for improvement”, as you put it, that Canada should seek to obtain. One of those was “reduced red tape for both people and goods”.

I wonder if you could give examples of current problems with red tape, and barriers that you would highlight as especially important impediments to trade as it exists now.

You also called for greater regulatory co-operation. I wonder if you could give a few examples of what you mean by that.

Mr. Mathew Wilson: Sure, I'd be happy to. Thanks for reading the testimony from the other committee.

Mr. Peter Fragiskatos: It's the cycle of life.

Mr. Mathew Wilson: Obviously, this is an important issue for us and for you as we work through things with the new administration and where NAFTA may go.

I have a couple of really specific examples, and maybe I'll give one on business professionals crossing the border. There are defined rules within NAFTA and within the trade relationship with the U.S., even within subagreements that Canada and the U.S. have on the movement of people and goods, that are aimed at facilitation. These go back, primarily, post 9/11 when a bunch of different agreements were put in place.

A really good example of one that we've never been able to get our head around and that doesn't really work that well is the movement of business professionals going back and forth. The specific example that I'll give will be around service and repair professionals.

As a pure Canadian example, machinery or equipment will often be bought from a U.S. supplier. As part of the agreement they will bring in people to install it, and then there will be a long-term service relationship to maintain that equipment. If something breaks down, the repair person needs to come into Canada because they're very often very specialized and trained only on one piece of equipment and they bring in the parts that come with it.

Under NAFTA rules and agreements with the U.S., those people should be able to enter Canada without any problem whatsoever. However, depending on the day that person crosses the border and which border crossing they might be crossing at, and which person might be asking them questions when they get to the border, they're often stopped and held for hours at a time and denied entry.

It's that type of problem. It's the uncertainty that comes with crossing the border. The excuse typically is that they're taking jobs away from Canadians. What ends up happening is that when that person can't get into the country to repair something, Canadians are losing jobs. It's that kind of thing.

We've also heard of a tit-for-tat type of problem, in which the U.S. is starting to increase its enforcement, asking for things like T4 slips when someone is crossing the border to prove that they're employed by a Canadian company. That requirement is not written anywhere, but a border guard decided that day to ask for these. The Canadians will reciprocate the next day when coming back. It's that kind of stuff that drives businesses crazy and really undermines the competitiveness of our intertwined economy. That's my example on that very specific issue.

On regulations, the RCC between Canada and the U.S. was a great step forward for us. The deal that was signed in 2011 was hugely supported by industry and, generally speaking, across governments, and we support it. It was really good in a lot of ways, but it also is weak in a lot of ways, because you're still relying on regulators to agree that their regulations should be merged with someone else's regulations. What ends up happening is that the two countries still regulate in tandem with one another. Sometimes they share data, and in some sectors like automotive, they've made really big leaps forward in areas like vehicle emissions, for example. In other areas there haven't been, so Canada will still regulate and make one small change over here without thinking much of it, and it will undermine the ability of a company to make one product and sell it in both markets.

What we think and mentioned here today and certainly mentioned before the trade committee is that we need to be looking beyond that, looking at something like a mutual recognition agreement of regulations. Then you're not relying anymore on regulators to come to agreement on what's aligned, but the political side of things can say that we trust each other's regulatory systems. We're going to allow each other to regulate. Canada can still regulate and the U.S. can still regulate, but we're going to accept U.S. regulations as domestic regulations, so you don't end up getting into these situations where products are banned from Canada simply because a regulator has a bad day one day. That is is happening today.

A lot of it comes back to the need for business certainty and to remove uncertainty as much as possible from the processes in regulatory approvals.

● (0910)

Mr. Peter Fragiskatos: Thank you very much.

Mr. Galimberti, you've spoken about, and touched on it here today, but I'm looking at a Reuters article that you were quoted in recently, the high degree of integration between the U.S. and the Canadian steel industries.

You talk about how metallurgical coal, iron ore, and steel scrap are bought from the United States by Canadian steel firms. I wonder if you could expand on this and speak about the integration of both industries, particularly in the context of the shift to a Buy American focus in the United States industry, but also about the integration because, obviously, that has implications for the Canadian sector.

Mr. Joseph Galimberti: Yes, in the NAFTA context it's a very seamless border of developed mutually complementary product lines. Canadian producers don't offer the range of product offered by U.S. producers. Our customers know that they're going to need to access both of those commodities on either side of the border.

As an industry we have embraced NAFTA integration. A lot of our large producers, as I mentioned, have facilities in the United States and maintain significant employment in the United States.

To the raw materials question, yes, $1.5 billion U.S. in metallurgical coal, scrap steel, other metal components, and iron ore last year alone is a significant commodity buy, along with with all the employment and economic activity it supports, such as in the mining sector in the United States, including iron ore and coal, the raw materials, transportation, and significant shipping.

Beyond the $1.5 billion, tremendous spinoff benefits are associated with that activity.

● (0915)

Mr. Peter Fragiskatos: Is it fair to assume from this that both sectors rely on one another and need one another?

Mr. Joseph Galimberti: Yes.

Mr. Peter Fragiskatos: And if they were cut off from one another, would there be dramatic negative impacts?

Mr. Joseph Galimberti: Yes, on both sides of the border.

That goes to my point about why, in those three specific Department of Commerce investigations, what we are looking for is a national exemption. We can make a case. In a lot of instances, the logic behind Buy American is that it displaces not only the direct commodity but also the associated employment. I talk about the raw material stuff.

Canada is in a unique position to make an argument that this is not the case when you're dealing with us, that there are significant economic spinoffs and economic benefits to dealing with a Canadian supplier. We're not saying, "Don't do a 232 investigation, or don't take action on the basis of your 232 investigation." What we are saying is, exclude Canada. It makes no sense to include us, as you will only hurt yourself.

Mr. Peter Fragiskatos: What has been the response when you've taken that message to American policy-makers within the House of Representatives and the Senate?

Mr. Joseph Galimberti: Generally, I'd say American policy-makers are receptive. Certainly those who are closer to the Canada-U.S. border have been receptive. As the same time, I take nothing for granted. These are three investigations that are ongoing. We had not contemplated this level of activity as it relates to a bilateral relationship.

As I mentioned in my remarks, steel dumping is their number one trade irritant. Both of their political parties talked about it during their campaign. We have to make sure that, as they follow through on those commitments, we're not caught up or implicated in a move against the globe.

Mr. Peter Fragiskatos: Thank you very much.

The Chair: Thank you, Mr. Fragiskatos.

Madame Laverdière.

[*Translation*]

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

Thank you both for your presentations this morning, gentlemen.

I think everyone around the table shares many of your concerns. I am referring to your concerns about a great many jobs in Canada, and also about the situation in the United States and the unpredictability of the administration and of certain policies.

Mr. Wilson, you talked about the potential impact of a border adjustment tax on your sectors. We are not sure that such a tax will be adopted, but it is still quite worrisome.

What would the impact be on your sectors?

[*English*]

Mr. Mathew Wilson: Thank you. I apologize for the problems with the microphone.

This is something we take very seriously. We've said, and Joseph just said as well, that we never know how some of these things are going to play out. Certainly right now the talk around any type of border adjustment tax seems to be fading in the U.S. At the same time, we're really well aware that if the administration is going to put through its corporate tax cut agenda, it will need to find revenue somewhere. We're not sure where it would come up.

There has been a wide variety of opinions on what that might look like. Without getting into specifics on any one of the models that are out there, our concern, frankly, is simply with the level of integration and the number of things that go back and forth across the border. Joseph could talk about the steel that goes into auto assembly, for example. But pretty much anything that we make within the North American environment is crossing back and forth across the border numerous times.

In some of the cases I've seen, like an engine block that's created, that block alone will cross the border six times before it's put into a car. So with all the various parts, you're talking about thousands of transactions across the border. If you have to capture every single one of these shipments that go into the U.S.... Just the tracking, in and of itself, of those shipments will be difficult, as will be the effort to try to tax all of these. Trying to figure out exactly what it is that's value-added in Canada on the way back in, from a part that actually originated in the U.S. and separating out what might be Canadian versus what's American will be an administrative nightmare. From the way we're looking at it, it would be very difficult.

I've seen economic studies that show an increase in consumer prices of anywhere between 5% and 10% in the U.S. almost overnight. I'm not an economist. I've just read different articles from different economists who have looked at this. But I don't think that's the big cost. I think the big cost is actually going to be trying to figure out what is American, what's Canadian, what's Mexican, and what's from somewhere else.

I know the automotive sector fairly well. The steel sector is part of that in the integrated supply chains. In pretty much any sector you look at between Canada and the U.S., they eliminated all of that tracing a long time ago. They did it because with the rules that were set up in the automotive sector going back to the 1960s, in aerospace and defence in the 1950s, and other sectors you're looking at from the FTA onward in the 1980s, the data isn't there to trace a lot of that anymore. To try to re-establish the data trails on a lot of this stuff would be very costly for businesses to do. They would lose productivity, lose competitiveness.

Again, we're not talking about this just from a Canadian competitiveness point of view, but Canadian and U.S. global competitiveness together as we compete against China, Europe, and other markets. It's not just about building a car in Canada. It's about building a car within NAFTA and competing against cars coming from South Korea, Japan or Europe. That's the really big unknown in this.

To put a dollar figure on that, I would have no idea what it would be. I don't think anyone could truthfully tell you what that number is. But the cost for business would be significant. It may not even be a direct dollar cost. It may be an indirect business processing cost that would be very difficult to put a number on, if you ever had to start figuring out some of the tracing of some of these things.

My comment earlier, and our comments on these things, is that the biggest priority we hear from our members on NAFTA and Canada-U.S. relations is the need to simplify borders. These are American companies, Canadian companies, and European companies. If you were to ask American companies in the U.S. what their priorities were, they'd say a lot of the same things. To us, this just adds an additional complexity to this, rather than making us more competitive and stronger globally.

● (0920)

[*Translation*]

Ms. Hélène Laverdière: I would like to continue on this topic, but please go ahead if you have something to say, Mr. Galimberti.

As you said, making business practices more complex also affects Americans. Mr. Galimberti, I think you mentioned the need to work at all levels.

How do you work on your issues with your American partners? What kind of mobilization is there? What advice could you offer the federal government, which will have to take action and play a role on as many levels as possible?

[*English*]

Mr. Joseph Galimberti: We maintain a really close connection with our American industry counterparts. We have active dialogues with them through a couple of different fora. The American Iron and Steel Institute and the Steel Manufacturers Association are organizations that I talk to quite frequently. We are working in tandem with them and the Mexican association, Canacero, to develop a set of shared priorities for industry that we think will benefit all three countries in a NAFTA renegotiation. We're hoping to move toward a common front before the negotiation takes place. We think we'll be able to get there on some broad parameters.

We've talked to our stakeholders in the U.S. to communicate to them the importance of positive outcomes, not only for NAFTA but also in these ongoing Department of Commerce investigations. We've engaged with the Canadian embassy in Washington to make sure that they are fully briefed on our arguments and understand what's at stake. Frankly, we're working in a lot of ways that we hadn't necessarily contemplated doing about 12 months ago, to make sure this message is clearly communicated.

I should also mention that the USW, the United Steelworkers, is working with the Canadian office here, the Canadian president, and also their central office in the United States, because it is a shared union. We do have very similar labour structures in both countries, so it's a matter of making sure there is an understanding that those USW jobs are in play as well.

I mentioned the OECD. As an industry, we've been really good partners with the U.S. in driving a lot of over-capacity issues there and the dialogue on that.

As for work that the Canadian government can do, we certainly appreciated hearing that the Prime Minister had specifically raised the section 232 investigation on steel and aluminum with President Trump at the recent G7 meetings. This is an issue of such significance, of such importance, that it deserves that level of attention and sort of persistence going forward. Our understanding is that when President Trump and Secretary of Commerce Wilbur Ross initiated this investigation under section 232, they intended to have an answer in 50 to 60 days. That's sort of drawing us toward the end of June. I think it's really going to be something that we have to watch quite carefully.

As I said, I take nothing for granted with this administration. The government's approach to engagement at the local and state levels, of making sure that Canada's message is out there as much as it can be —and all political parties have been involved in that effort—is going to have to continue for the length of this administration. I don't believe there is going to be a chance. If we're out of mind for a moment, I think it will problematic.

● (0925)

[*Translation*]

The Chair: Thank you, Ms. Laverdière.

You have the floor, Mr. Levitt.

[*English*]

Mr. Michael Levitt (York Centre, Lib.): Good morning, gentlemen.

Just to follow up on that last point, I had the opportunity, as did members of many committees, to go down to Washington in the last number of months. I can tell you that even though it wasn't the primary focus or reason for the visits, at each and every opportunity with a range of congressmen from both parties, and Senators, it was obviously an issue that we raised with them. Certainly the experience we had—and it was all parties travelling down there—was that there was great understanding among the individuals we met of the importance of keeping the border thin.

There did not seem to be an appetite for border adjustment taxes. That was something we heard time after time. We were delivering the message about the number of states for whom Canada was the primary trading partner, and I'll tell you that we got a good reception on that. Obviously, as you said, that's work that we are going to continue doing from this end, reaching out to colleagues down there to make sure that the message is amplified as much as possible.

Mr. Wilson, I want to go to a higher level and talk about the new face of Canadian manufacturing, what it looks like today and where it's going. In my riding of York Centre in north central Toronto, we have both the traditional idea of large-scale advanced manufacturing, as well as small and medium-sized enterprises that make everything from consumer and industrial goods to specialized research products.

What's the face of Canadian manufacturing today compared to the idea that many of us have? Where is it heading, and how can we, in Ottawa, continue to support it?

Mr. Mathew Wilson: That's a great question, and I'm happy to talk about it. I'm sure that Joseph would talk about it as well, specifically from a steel perspective.

I think what we get is this media image of smokestacks and really heavy industry and dark corners and things like that. If you go into a modern assembly plant, including in the more traditional industries like steel, what you see is often more like a lab than what you would expect from manufacturing—floors so clean you could eat off them, and that type of thing. The introduction of technology into manufacturing is really rapidly changing what is happening. The old jobs and the old type of work that was taking place—screwing things together and old assembly line processes—are being replaced very quickly by autonomous robots.

Even new ways of building things, such as using 3-D printers, are changing the way companies are building products, and very rapidly so. An example would be that we build a lot of auto parts and aerospace parts, especially in Ontario, and probably a lot in your riding would be parts manufacturers for different industries—tier one and tier two suppliers. We're at a stage now where we have a history of being really good in that space. Companies like Magna, Linamar, and Martinrea, for example, are world leaders in this area. But they're changing, because of technology, from being able to maybe take eight or 10 separate parts and making one part that then goes into a bigger unit like an automobile to 3-D-printing that one part. You're eliminating eight parts and making one part to make it more efficient, and that's all through technology.

The face of manufacturing is about that. It's now more about computer programming and design than it is about smokestacks and things like that. That's going to continue to change as new technologies come along. There is a lot of discussion out there about AI and the Internet of things. Most of that Internet of things and AI is actually going to be applied in a factory setting long before it will be applied for you and me in day-to-day use.

Maybe one of the best examples of that is autonomous vehicles, which is a big discussion point right now. The first auto assembly plant I ever went to was a GM plant in Oshawa in about 2001. That entire plant was a mobile robot. Every pickup truck moved from station to station, and the truck itself was on a robot that was autonomously moving. That was almost 20 years ago, and that technology is probably 25 years old. Industry is really at the forefront of implementing all of these technologies, so as we're talking about these in consumer settings, that's really what's happening.

Going back to the earlier question by Mr. Allison, about competitiveness, our concern and the stuff we're looking at, from a Canadian perspective, is that we're falling behind on the development and the adoption side of these new technologies. The further we fall behind, the harder it will be for Canadian industry to keep up in terms of our global competitiveness, whether it's in a relationship with the U.S. or our ability to even supply U.S. companies in those supply chains.

Our focus in Canada needs to be, one, to understand the disruption by these technologies and how they can apply to the industrial sector; two, how we take advantage of those technologies; and three, how we help and get more companies, especially those 10- and 15-person shops that are really risk-averse and unable to adopt technology, to adopt the technology, because they're not adopting it today at the levels they need to in order to be globally scaled and globally integrated.

Hopefully that helps. I'm happy to answer anything specific.

● (0930)

Mr. Michael Levitt: Mr. Galimberti, do you want to respond?

Mr. Joseph Galimberti: I think Mathew touched on a really key point.

We talk about fostering technology and technology development in Canada. Opportunities to commercialize this technology are fostering manufacturing. If you do not have a domestic manufacturing sector, you are at a tremendous, tremendous disadvantage as relates to technology development.

As we talk about losing competitiveness to the U.S., and attracting foreign investment, when you're attracting that direct foreign investment to Canada, 99.9% of the time that foreign investment is in new technology, so that's the kind of economic activity you want your manufacturing sector generating.

Certainly all of our member steel facilities are tremendously high tech. When the advanced manufacturing facilities talk about making an investment, it is in technology, and it is in commercializing what is hopefully Canadian research.

Mr. Michael Levitt: Thank you very much.

The Chair: Thank you, Mr. Levitt.

Mr. McKay, go ahead, please.

Hon. John McKay (Scarborough—Guildwood, Lib.): Thank you, Chair.

Thank you to you both.

I have a very simple question for Mr. Wilson, which I think maybe has significant implications. The question is this: what is manufacturing?

I'm looking at this. This is a pretty impressive piece of technology, and I can kind of understand how putting it together requires manufacturing. I don't know about the code and all of the rest of the patches that go with it, etc.

The reason I ask is that the definition of manufacturing is probably somewhere in the current NAFTA agreement. I would image—and I don't know—that the writing of that definition is probably as important as all of the other negotiations that go with NAFTA.

Give us your best advice as to what manufacturing is, how that will affect the negotiations between Canada and the U.S., and also vis-à-vis the larger world.

Mr. Mathew Wilson: It's a simple question, but very complicated.

First, I'm not sure there is a definition of manufacturing in NAFTA. There would be definitions of the products of manufacturing in NAFTA. We have a definition, and the U.S. has a definition, and there are global definitions. Really, StatsCan holds our definition in Canada, and it's based on a 1960s and 1970s reality of manufacturing. One of the things that we've been pushing governments to do for a while is take a more serious look at it and update it.

If you look at just the raw stats of manufacturing, one of the key definitions of what is manufacturing is that 50% of your workforce needs to be involved in assembly. I don't know how many of you have been inside an assembly plant lately, but I was in a pharmaceutical company, for example, and while they employ thousands of people, most of them were scientists developing the chemical compounds that go into the making of the pills.

● (0935)

Hon. John McKay: With that definition, GM might almost not be a manufacturer.

Mr. Mathew Wilson: Right. If you look at GM's or Ford's latest investments, what are they investing in? They're investing in autonomous vehicle research in Canada. Almost by definition we're underselling what we're doing from a value-added perspective. Our definition, frankly, is a lot simpler. It's what are you adding value to, and how are you changing things? Even things like energy production in Canada is really just an advanced manufacturing operation. For example, I had an opportunity to tour some sites in Fort McMurray a couple of weeks ago, and what they were doing there really didn't look any different from an assembly plant in southern Ontario. It's a lot of the same type of stuff.

Our definition is a lot broader, and I think we need to look at it in a broader sense. It is everything from coding, development of smart phones.... BlackBerry is a good example. They were defined in Canada's stats for years as a cultural industry because of the way their employment fell, but if you asked them, they said they were manufacturers because that's what they were doing. They made the hardware.

Hon. John McKay: Actually, they were manufacturing in some other country.

Mr. Mathew Wilson: Well, they did have major Canadian manufacturing operations, and now they are almost exclusively in software.

I think we need to take a different look at it. Frankly, in a lot of ways—

Hon. John McKay: Excuse me, does software fall within manufacturing?

Mr. Mathew Wilson: No, it would be in the IT sector.

Hon. John McKay: So BlackBerry is not a manufacturer?

Mr. Mathew Wilson: No, it would fall under technology and IT, and more and more manufacturing is moving in that direction. There's a massive blurring of the line between, not just technology, but even services in and of themselves. The value of companies' profits and the wealth they're creating while they're making tangible products is tapping into more in the services and the technology side of things rather than the products themselves.

Hon. John McKay: In the negotiations of CETA and TPP, was the definition of manufacturing addressed?

Mr. Mathew Wilson: Not that I'm aware of. Again, it's more of a domestic definition for how you capture you own stats. You'd have to look at things on a product-by-product level. You don't really define a segment; you define a product. You would define software services and steel, and even different elements of steel in automotive, but you wouldn't define it as a whole, right? You'd define it more specifically. Those definitions tend to really revolve around the rules of origin and transformative change for what's allowed to move freely between the countries.

Hon. John McKay: Before my ever-so-charming chairman cuts me off, I want to ask you one final question. This goes to both of you. When the dollar was high, economic theory said that you should be investing in technology. Our productivity numbers barely budged. What's wrong with that?

Mr. Mathew Wilson: Companies aren't investing enough, plain and simple. I think our investment dollars between 2014 and 2016 dropped by about 15%.

Hon. John McKay: Why don't Canadian manufacturers get that?

Mr. Mathew Wilson: Well, I think there are a couple of things we heard when we asked them about it, and certainly I'll talk generally, and if Joseph wants to he can add specifics.

I think there is a lot of investment that goes on in a lot of companies, but our challenge comes back to what we were talking about earlier, the structure of the manufacturers: really small companies, uncertain about what type of technology to invest in, and in a lot of ways, a lack of support for investment in new riskier technologies.

When you're talking about a 15-person company that's focused on meeting payroll at the end of the week—do they meet payroll, or do they invest $1 million in a new 3-D printer—it's not that hard for them to make the decision. Unfortunately, that's where 90% of companies are: that really small end of the spectrum. The larger companies are continuing to invest, maybe not as much as we would like them to. But that's a big part of Canada's structural problem with a lot of these things. We have a lot of really small companies. We need to help them invest and scale up.

● (0940)

Mr. Joseph Galimberti: Our member companies tend to be on the much larger side. They're in international competition for investment dollars. It's not a decision about whether you invest in Canada; it's whether you invest in Canada, whether you invest in your facility in the United States, or whether you invest in your facility in Europe.

This goes back to the competitiveness question. They're looking at a holistic sort of business environment. They're looking at structure around trade remedy. Are you protected from dumped and subsidized goods? They're looking to see what kind of support is available. What kind of power rates are they going to be dealing with? What does the general business environment look like?

I think Canada lacks, in a lot of instances, a coordinated approach among jurisdictions as to how to attract that investment. We simply do not have the flexibility that you see in other jurisdictions. And it goes across sectors. I heard the chemistry industry very recently make the same argument at the international trade committee that where Canada used to get 10% of an investment in that particular industry, it is now attracting about 3% of investment in North America. It is not unique to any particular sector.

The Chair: Thank you, Mr. McKay.

Mr. Genuis, go ahead, please.

Mr. Garnett Genuis (Sherwood Park—Fort Saskatchewan, CPC): Thank you, Mr. Chair.

And thank you to our witnesses.

I'm pleased to represent Sherwood Park—Fort Saskatchewan, which is a real hub of energy-related manufacturing. Speaking of the definition of manufacturing, that's one of those other areas where people don't necessarily make the connection. There is the importance of our energy sector, but also the relationship to manufacturing.

I did appreciate the mention of pipelines as well. I would be remiss if I didn't mention, of course, that we could be building more pipelines here as well, which would support our steel industry. Just coming off the heels of a leadership campaign, I know that our new leader has an Evraz steel plant, which makes pipeline, right in his riding. That is an important part of our energy economy, but also supporting manufacturing and supporting the steel industry. Those are good unionized jobs at Evraz that are helping working families.

Having made that point, I want to ask Mr. Wilson about your comments around expanding and strengthening the agreement. There's a lot that sounds good there, but on the other hand, my impression is that the prism through which the American administration is seeing this is instinctively one of kind of wins and losses. It's one of trying to get a better deal for America relative to other countries.

That's not how I see international trade. I see it as an opportunity to create a space of free exchange where people can prosper together. Speaking of the real practicalities of this, is there a way of achieving a win-win not just economically but also politically, of kind of speaking into that prism of you're winning or you're losing in a way that, yes, allows the American administration to point to some results it's achieved in a way that is also advantageous or at least not disadvantageous to our interests?

Mr. Mathew Wilson: I think Canada has a great story to tell. If you look at our overall trade balance with the U.S., we're running a surplus because of energy, which they are looking for. On manufacturing products, we're running a small deficit with the U.S. It's very equal, and Joseph mentioned the steel-specific one, but pretty much across the board, we're equal.

I think for us it's that story of joint competitiveness globally. If we can structure and build on the existing deal and tell the story to the Americans that by working together on global trade we stand to benefit.... The U.S. in a lot of ways—and the China story in terms of steel dumping is one example—feels like they're alone in a fight on a lot of these issues globally. That's just one example. There's currency manipulation and other examples.

We have exactly the same problems as the U.S. does in a lot of ways. If you look at our trade deficits, for example, we're running similar types of trade deficits with exactly the same countries: China, Europe, South America. On the CME's part—and we've been saying this for a while now—we should be going to the U.S. and offer to work with them in areas of mutual interest to benefit both economies. If we can strengthen the integrated level of the economies between our nations—we're selling goods to each other, and we're their biggest customer—we have an opportunity to really tell them a good story about joint competitiveness and growing our economies together.

All you have to do is look at what's happened since the signing of the Canada-U.S. Free Trade Agreement. The U.S. hasn't lost massive numbers of jobs to Canada or anything like that. We've actually developed really strengthened integrated economies that mutually benefit each other. I think that's the great thing I've seen about the government's effort and the team Canada approach in telling that story in the U.S.

I do think we have a lot of positive things to tell them about and a lot of positive areas where we can work together to build off of. In my mind, rather than just trying to pick fights all the time with them, we need to pick two or three areas where we say, we're going to be your partner on this, let's work together on it.

● (0945)

Mr. Garnett Genuis: Thanks so much.

If I could maybe develop where I think where you're going with that and maybe combine it with some of the other things that were said, instead of emphasizing the competitive dimension between Canada and the U.S., if we can get the administration in the U.S. to see that some of the major trade irritants they're dealing with are ones that we can help them on....

We've made this argument before that if we take an approach that says we're going to align with China and not with the U.S., that sends the wrong message. But if we take an approach that says we can help the U.S. address these major economic issues that come from the unfair trade practices of China, we can be a partner with them on it. But we have to be working together as a team. You mentioned team Canada, but we even need a team North America approach to advance our interest.

Is that something that is worthwhile strategically for us to be doing?

Mr. Joseph Galimberti: Yes, absolutely. Just to jump in there, I want to mention that there's a great example in Edmonton of this. NAFTA is not a calculation of wins versus losses between Canada and the United States. This is where I think the work of this committee is excellent. NAFTA is a calculation of how North America wins versus the globe.

A great example of that is a steel company in Edmonton, AltaSteel. Their primary ownership is now out of the United States. It was an acquisition made by a U.S. company so they could fortify their corporation to better compete globally. That's what it's about. When you talk about dealing with unfair trade practices—and on that I mentioned mutually assured defence—part of that is customer satisfaction. Part of that is combining forces to be more competitive. That's how North America gets ahead. It's not about a series of singular disputes across individual products between our borders.

The Chair: Colleagues, that wraps up our first hour.

I want to thank Mr. Wilson and Mr. Galimberti for their presentations. In fact, this is a very important matter. I think all of us are extremely interested in the next generation of NAFTA. If I'm hearing correctly, most of the industry seems pretty supportive of the idea that it's probably time to refresh NAFTA and make it a little more worldly in where we're headed—not where we've been. I think the discussion we're having is extremely important to all of us.

So again, on behalf of the committee, thank you for your presentations. We'll be keeping a close eye on this, as you have been, with the idea of making Canada more successful.

So thank you.

Mr. Mathew Wilson: Thank you.

The Chair: Colleagues, we'll take two minutes and then we'll go to our next witnesses.

●

(Pause)

●

● (0950)

The Chair: Let's get started on our second hour.

Welcome back, colleagues.

In front of us is the Association of Canadian Port Authorities, and Wendy Zatylny and Debbie Murray.

We're going to get right to it.

Wendy, you can get started, and then we'll get into questions from there.

The floor is yours.

Ms. Wendy Zatylny (President, Association of Canadian Port Authorities): Thank you very much.

Good morning, honourable members.

My colleague Debbie Murray will be joining us shortly. She is my director of policy and regulatory affairs, and certainly is involved in the nitty-gritty of all the work we do at the association.

On behalf of the association, thank you for the invitation to speak this morning. I want to take a few minutes to set the context and sketch a picture or an image for you of what port authorities are, and then how we interact within the North American transportation system.

To start, we represent the 18 Canada port authorities that exist across the country. We are on both coasts, the Atlantic and Pacific, but we also have to remember that we are within the St. Lawrence Seaway and the Great Lakes system. We hear a lot about Canada comprising three coasts. I always say we are four coasts, the fourth coast being the interior of the country.

The ports are both bulk and container ports, and they handle collectively over $200 billion worth of cargo every year, incoming and outgoing, with trading partners in more than 160 countries. This carries some economic heft with it. We are responsible for creating nearly a quarter of a million direct and indirect jobs that, it should be noted, pay higher than average wages.

We are also committed environmental stewards and are contributors back into our communities. We did an economic impact analysis recently that showed that just in baseline terms, we donated some $22 million back into our communities over the past five years.

In terms of foreign policy, I was looking at the mandate and the questions of the committee, and we very much approach these questions through the lens of trade. As I said, I want to draw a picture for you today of the points of intersection that Canadian ports have in the transportation supply system in Canada and the U.S. The picture is certainly about cargo flows, but we are also going to talk about passengers, people, as well as other areas of collaboration, because the system we have is much more complex than it appears on the surface. Then I'll end with a few words on the issues that we are keeping an eye on as our relationship with the United States evolves.

In terms of cargo flows, clearly the committee has heard ad nauseam about the strength of the relationship between Canada and the U.S. and the volume of trade that goes back and forth across the common border. However, we have to remember that a lot of this occurs through intermodal connections that link ships, ports, rail, and road. What does this look like in terms of numbers? This is seen most obviously in the movement of containers, and 25%—or 1.2 million TEUs—of total laden containers handled in Canadian ports were destined for or received from U.S. destinations in 2015. In 2016 this amount decreased slightly to 23%, which is about 1.1 million TEUs.

Containers flowing through Canada and into the U.S. supplied everything from consumer electronics, furniture, and clothing to auto parts and other inputs into the American manufacturing system. The majority of the containers, whether they are coming in from the east coast or the west coast, flow into the American Midwest, especially Chicago, for processing or onward movement.

Again, the story goes beyond simple container movements in that the two nations have evolved a symbiotic relationship in transportation that worked to improve the cost-effectiveness and the efficiencies on both sides of the border. The best example of this, again, is in the St. Lawrence Seaway Great Lakes region, where cargo inflows and back-haul arrangements have been worked out to maximize the cost efficiencies of the system. Remembering that transportation operates on extremely narrow margins, it has led to a matter of survival to try to eke some profit or sustainability out of the system. Again, this system has evolved to become extremely efficient and extremely cost-effective.

To put it in context, the Great Lakes St. Lawrence Seaway is an integrated binational marine corridor that goes 3,700 kilometres into the heart of North America. It's unique in the world as a system, and it provides marine access for two provinces and eight U.S. states. It has a combined GDP of some $7.8 trillion, which represents about 30% of the economic activity in that region on both sides of the border. The importance of the Great Lakes St. Lawrence Seaway, as a key enabler of economic prosperity, led the governors of the eight states and the premiers of the two provinces, Ontario and Quebec, to adopt a Great Lakes St. Lawrence maritime strategy in 2016.

● (0955)

We were part of those discussions. They were multi-stakeholder discussions. The strategy's objectives were to double maritime trade, shrink the environmental footprint of the region's transportation network, and support the region's industrial core. The strategy is designed to help grow the region's maritime sector, which already contributes some $30 billion to the U.S. and Canadian economies, and frankly, accounts for some 220,000 jobs on both sides of the border.

On the Great Lakes, most of the cargo is bulk or project cargo, and it comes out to an estimated 1 billion tonnes that moves every year on the water and supports key industries such as grain, auto, and steel, which I believe you heard from earlier.

I keep saying the word “symbiosis” because it's an important concept. An interesting symbiosis has evolved to make the system as efficient as possible. For example, you get trans-shipment along the points of the system to maximize the efficiencies of the ships. Iron ore is loaded by Canadian ships and carried to the Port of Quebec, where the ships are either topped up or they're trans-loaded onto ocean carriers for onward transport to Asia for steel production.

We're also seeing American lakers carrying iron ore from Duluth/Superior to Conneaut, then picked up by Canadian domestic ships again for transport up via the seaway.

Similarly, within the Great Lakes St. Lawrence Seaway system, grain exports are concentrated at the ports of Thunder Bay, Duluth, Superior, and Toledo. From these ports, wheat is either directly transported overseas, again, by ocean-going ships that will load, go up the seaway, top up in Quebec City where they've got greater depth, and then head out across the ocean. But it's loaded on as back-haul cargo, or is loaded onto lake vessels for, again, trans-shipment at ports along the St. Lawrence. From there, the larger vessels carry the cargo to overseas destinations.

It's important to note that everybody in the system recognizes how well the system works, and our American friends certainly recognize the value of this. The Duluth Port Authority has talked about how project cargo makes it way through this waterway, and the back hauls of grain along the same trade lanes are what make the freight rates even more competitive. Similarly, the Port of Milwaukee has suggested that one of the keys to their success for agricultural product exports is the importing of steel. The ships bringing in steel are looking for returning cargos, so it's more economical if there are products like grain to ship out. It's important to think of this as a circuit or a closed system.

Looking further at integration within cargo movement, if you take it outside of the Great Lakes St. Lawrence system, we've had pilot projects where the Canada Border Services Agency has conducted examinations of U.S.-bound containers on behalf of the U.S. Customs and Border Protection staff. These pilot projects were held at the Ports of Prince Rupert and Montreal, and both projects were designed to test, validate, and shape the implementation by sharing information, adopting common standards for security screening, and inspecting inbound marine cargo at the first point of arrival in North America.

The success of these pilot projects led to improved cross-border clearance procedures such as developing tamper-evident technology on container seals, standardizing regulations on wood packaging materials, harmonizing the trusted trader programs, and developing electronic single window data transfer initiatives. It's been successful, certainly more so coming out of Prince Rupert on the west coast.

I mentioned earlier that I was going to talk about cargo, people, and collaboration. Another significant area of synergies is in the burgeoning cruise industry that Canadian ports also host. In 2015, Canadian ports hosted over 1.5 million cruise passengers who came in. This is obviously on the coast, but also within the St. Lawrence Seaway and the Great Lakes system.

If you look at percentages, Port of Vancouver gathers the most precise data, and 62% of their passengers were U.S. residents. Overall, the number of cruise passengers is growing. On the eastern seaboard, earlier in May, Quebec City announced that they've become a new port of call and a new itinerary for Disney cruises. Disney also calls at the ports of Saint John and Halifax, but also calling on Canadian ports with very active cruise itineraries are ships from Royal Caribbean International, Celebrity Cruises, and Carnival Cruise Lines.

Again, this has lead to synergies within the system, so Canadian ports, especially Port of Vancouver, have worked with U.S. Customs and Border Protection Services to provide pre-clearance at the port to maximize the customer experience, if you will. They provide pre-clearance for passengers boarding a cruise ship bound for Alaska, which is considered re-entering U.S. jurisdiction. The Port of Vancouver has installed 10 automated passport control kiosks at Canada Place cruise terminal, which help speed up the passenger processing rates through U.S. Customs and Border Protection.

● (1000)

There are two big areas, and the last one I will mention is simply that of collaboration. Beyond cargo and passenger movement, by virtue of our having to work together to essentially deal with the same kinds of issues, we've developed a whole number of areas of joint collaboration. Safety is a great one. We have shared icebreaking and pilotage duties in the Great Lakes–St. Lawrence system. In fact, we have a memorandum of understanding with the U.S. in which we have to alternate American and Canadian pilots to transit ships in the system and bring them into Canadian ports.

On the security side, the port of Windsor is probably the best example, but we all collaborate closely with American ports. Port Windsor collaborates closely with the Detroit police, the FBI, and the U.S. Department of Homeland Security to jointly manage public events and respond to safety and security issues on the Detroit River. In fact, they're now working on the potential and possibility of a joint command centre on Canadian soil to be used by both jurisdictions.

We also have examples of joint market development. Most recently, the ports of Three Rivers, between Quebec and Montreal, and Indiana formed a first-of-its-kind marketing partnership. They will explore conducting joint studies for new maritime shipping opportunities and holding trade ventures overseas to help build their commercial activity and explore short-sea shipping possibilities.

Lots of work has been done, both on cargo flows and certainly on passenger flows, but also dealing with, say, the softer issues that touch us on both sides of the border in the marine sector. Certainly, collaboration, partnership, and integration are the realities of such a highly specialized continental and global supply chain. Over decades, we've collectively built up this highly sophisticated supply chain and an effective symbiosis—there's that word again.

Looking ahead as we watch things evolve both in Canada and the United States, we do have a few concerns. There are some areas that we're keeping an eye on that we need to be watchful of.

The first is the border adjustment tax, of which there has been a significant amount of discussion with our friends in the United States. Much has been said on this topic, and we certainly would like to add our voices to the chorus of concern on this. There is no doubt that any border adjustment tax would in effect thicken the border and add costs while slowing cargo movement, and increase cost to manufacturers, shippers, ports, and ultimately the consumer, both in handling and then the add-on costs.

At the same time, there is the potential for border thickening through regulatory impediments. The question of how quickly and freely goods and people move across the border has been touched on a number of times. One-sided security or cargo screening requirements and slower data processing for cargo movement would undermine the efficiencies and relationships that have been established and refined over the years. We noted in the recent U.S. budget—although it still has to pass Congress—that significant dollars have been earmarked for border security initiatives, which, depending on how they're designed, could increase the requirements on goods crossing the Canada–U.S. border. These are requirements that our CPAs may have to accommodate to compete for the same markets and shippers.

On the positive side, as an off-setting measure, strengthening bodies such as the Regulatory Cooperation Council would certainly make them even more valuable forums for dialogue, the goal being to avoid unintended consequences. We would ask and must seek to move towards a regulatory playing field where equivalency, or at least mutual recognition of respective regulatory regimes, allows for the safe, secure, and efficient, continental and international movement of goods.

With that, I will stop. It's a huge story, and there's so much to say. There's a big difference between coastal ports and inland ports. I hope I've been able to sketch a bit of the picture of what the integrated ports and North American transportation system look like.

I look forward to your questions.

● (1005)

The Chair: Thank you very much.

We're going to go straight to questions.

I'll start with Mr. Allison.

Mr. Dean Allison: Thank you, Mr. Chair.

I have a couple of questions.

You talked about a decrease, although slight, from 25% to 23% of products coming in from or going to the U.S. Is there any specific reason for that?

My second question revolves around Canadian infrastructure—and I don't know if it has anything to do with that.

But in your estimation, is it because of the economy, or have they chosen other places to go? Can I get your thoughts on that?

Ms. Wendy Zatylny: Primarily, it's shifting global trade flows. Canadian ports have developed other areas of business and other areas of import and export. Consistently over the past decade, we have seen that trend of Canada–U.S. cargo movement declining overall as we've built up other areas.

Mr. Dean Allison: Good. That's great.

I know our government had some initiatives around ports and trade quarters, etc. Obviously, there's a lot of conversation around infrastructure and infrastructure banks. Talk to us about the state of infrastructure with the ports in Canada, and whether that affects our competitiveness. There is always a need for infrastructure, so that's probably not a question at all.

Talk to us about the state of infrastructure in our ports and the requirements as we move forward, and how that relates to our competitiveness with the U.S.

Ms. Wendy Zatylny: That's probably at the very heart of the story of ports and transportation. As you've noted, there's never not a need for additional infrastructure. To put it in context, about five or six years ago, the association did a study with Transport Canada of the projected growth of Canadian ports and their associated infrastructure needs. At that time, pre-CETA, we found that there was a need for about $5.8 billion worth of investment into Canadian ports—simply port infrastructure. One-third was developmental, for projected growth requirements, and two-thirds was rehabilitative, to fix the legacy infrastructure that ports had inherited.

Ports are extremely adept at coming up with a patchwork quilt of financing to manage that, and they leverage private sector financing extremely effectively, but of course any infrastructure funding that comes from the various levels of government, including the federal government, is an extremely important part of that.

In terms of how that affects our competitiveness, I've talked a lot about biases with our North American counterparts. We collaborate with them, but we also compete against them. As a measure of the effectiveness and the efficiencies we have managed to extract from our supply chain and working with our supply chain partners, we have been able to capture in some cases a greater share of cargo bound for the American Midwest. As I mentioned, that has been routed up into Prince Rupert and Vancouver, for example. That's simply a function of being efficient and working to extract efficiencies within the supply chain.

That being said, infrastructure investment is still needed. We are at risk now of starting to fall behind if we don't start investing quickly. The American ports have been investing in the tens of billions of dollars in upgrading their infrastructure to meet changes in global supply chains and transportation routes with the advent of larger, deeper ships. The American ports have been able to invest a lot more than we have. We are eagerly looking forward to opportunities like the Canada infrastructure bank, as well the trade and transportation corridor fund from Transport Canada, to help us keep up in that area.

● (1010)

Mr. Dean Allison: Thank you.

Mr. Ziad Aboultaif (Edmonton Manning, CPC): To stay on the business topic, the economic topic of the ports, I have three questions. How efficient are we? How profitable are we? Is there room for growth, and how?

Ms. Wendy Zatylny: I'm sorry, was the first question how efficient we are?

Mr. Ziad Aboultaif: Yes, how efficient are we as Canadian ports? Are we making money?

Ms. Wendy Zatylny: Yes.

However, let's be clear that we are shared governance organizations; we are not profit-seeking. We do need to have retained earnings, and those are what get reinvested back into port infrastructure investment. We are efficient, and by the measure of port competitiveness, we are successful at retaining and attracting a greater share of cargo to be able to compete internationally.

Ports operate within a system, and it is noteworthy that the World Bank does a logistics performance index analysis every two years. About six years ago, Canada went down to 14th, and we're now back up at 12th. It sounds good when you compare it to the rest of the world's countries, but the World Bank makes the point that it's the 10 percentile you're in that is the most important. By that standard, Canada should be in the top 10 per cent, and we're not. We are effectively, right now, punching below our weight. Part of that is due to lack of infrastructure investment. We do need a bit more to get us up there and help make more seamless connections between port, road, and rail.

Mr. Ziad Aboultaif: In the growth of the American economy—and they're doing well economically it looks like, and that's the outlook for the future—is that good news for us or not in port business or are they going to be growing their ports at the same level, and then we're not going to get any of that?

Ms. Wendy Zatylny: The global shipping industry is highly competitive. As the American economy grows, we stand to be able to grow with it. Pardon the marine example, but a rising tide lifts all boats. How much of that we will retain or capture relies on our overall competitiveness, which is a function both of infrastructure and then of supply chain efficiency. Our advantage, again, is that the port authorities have been very effective at working with their supply chain partners, especially road and rail, to remove any of the speed bumps within the transportation supply chain. They have developed data-sharing initiatives, where essentially they share key performance indicators and then work to identify how they can overcome some of the challenges. That's one of our great competitive advantages, and the Americans have recognized that as well. It's up to us now to be able to keep supporting that.

● (1015)

The Chair: Thank you.

We'll go to Mr. Saini, please.

Mr. Raj Saini (Kitchener Centre, Lib.): Good morning. Thank you very much for coming.

I want to follow up on a comment you made in your opening preamble, where you talked about the thickening of the border. Could you explain to me, as someone who is unfamiliar with how ports and their logistics work, what the challenges are? What would the further challenges be if there were a thickening of the border?

Ms. Wendy Zatylny: There are two sides to that answer, cargo and people. In terms of cargo, most of that would be expressed through the movement of containers that would come in through one of our container ports: Halifax, Montreal, Prince Rupert, or Vancouver. If additional security or screening requirements were imposed on cargo movements, that would serve to thicken the border by slowing the processing and increasing the time getting the box off the ship and down to its intended destination. Currently, we operate at a much higher level of security than the Americans. For example, 100% of our containers run through radiation portal screenings. We have a comparatively high level of secondary screening. So we have very high security procedures in place already; however, additional regulatory requirements would serve to slow things down.

Similarly, on the person side, on cruise passengers, especially in the St. Lawrence Seaway and the Great Lakes, but even up on the coast, when you have ships that leave the United States on itineraries that come up into Canada or through the Great Lakes and the St. Lawrence Seaway, where they essentially bounce back and forth between Canadian and American ports, one of the issues is that we constantly have to clear people as the passengers cross the border. This simply becomes a disincentive. That would be another example of thickening.

Mr. Raj Saini: Will the recently signed CETA trade deal place a greater burden on ports? Are we prepared to handle the increased traffic flow of goods and people between Europe and Canada?

Ms. Wendy Zatylny: Our Canadian port authorities are very much looking forward to the increased traffic flow and have been building toward that and preparing their infrastructure projects and their growth potential as a function of that.

Mr. Raj Saini: Something that you wrote I found very interesting. You talked about the domestic economic multiplier effect of having port cites. You said that 90% of goods we purchase have been transported by boat; $200 billion are shipped through our ports; and that our ports present a focal point where innovation, creativity, and cultural dynamism have rippled outwards. I agree with that.

I'm wondering how we can keep it going. What do we need to do? One of the statistics you've cited is that every million tonnes of new cargo generates 300 well-paying jobs. You talked about efficiency also. We're twelfth out of 155 countries in terms of efficiency, according to the latest World Bank report. How do we increase our efficiency? If we just bring it down to a more micro level of boosting our own domestic economy, especially in certain port cities, what advice do you have? What should we be doing to maintain or to increase the economic affect of ports in Canada?

Ms. Wendy Zatylny: It ultimately comes down to recognizing that a port city is a lucky city and to getting that message out there for exactly the reasons you've talked about. But that is a difficult message to convey to people who have to deal with truck movement and light and dust, all of which are things that port authorities work very hard to mitigate.

That said, it's then also necessary to support the activities of the ports, the port authorities themselves, in the work that they do.

The nature of ports has changed over time and the port authorities, again, by virtue of being shared governance organizations that are related to the federal government, have been able to benefit from a more trusting relationship with their supply chain partners to broker the kinds of dialogue and information sharing that I mentioned. This has translated into the efficiencies and discussions of trade corridors as a system. To be able to continue to support that would be extremely important, that notion we're talking about of supply chains and systems that are in fact growing, that span the country now. That's one important part.

The second part is to allow the port authorities to expand into that role more fully. One way of doing that, which we've talked about quite a bit, is allowing us to become even more competitive through increased financial flexibility.

We have challenges. When we were created the government was risk- averse and we were given extremely low borrowing limits. Borrowing on the open market is part of the patchwork quilt of financing that I mentioned earlier. I keep saying that the current borrowing limits are the equivalent of your going to your bank and asking for a mortgage and the bank coming back and saying, great, lucky you, you've been pre-approved for a mortgage of $150,000, and you say, thanks, but I'm trying to buy in Vancouver.

The limits are artificially low. The port authorities have to go on an individual project-by-project basis to plead their case before three government departments. It takes years to actually get that moved. That starts to become a drag on the speed with which a port authority can proceed with an infrastructure project.

So there are a number of financial flexibilities that we need to be able to have to respond in a more competitive market. Amendments to letters patent is another issue. We acquire land. We sell land. It happens in commercial timelines on the commercial market, but again, there's the same issue: it takes upwards of two years to amend our letters patent to recognize the acquisition of land. In the meantime, the port is either trying to pay extra to hold on to that land, or in the case of one port authority, it was given 50 acres from the municipality for free, but it cost them $55,000 in legal fees just to process the change.

These kinds of flexibilities would go a long way towards keeping the ports moving in commercial real time. Then again, the question of infrastructure funding is extremely important.

● (1020)

Mr. Raj Saini: Thank you.

The Chair: Madame Laverdière.

[*Translation*]

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

Before I begin, I want to say how pleased I am to see a woman back on the other side of the table again; I believe she is Mr. McKay's assistant. I do not feel as alone when I can see at least one other woman.

By the way, ladies, thank you for being here today.

I represent a riding in the centre of Montreal and I often have to deal with port authorities, whose activities extend into my riding. It is always a pleasure to work so effectively with them.

I was especially pleased to hear you mention the four oceans, in a way, including the river and the adjoining system. Yet we do not often talk about the ports in northern Canada.

First of all, do you have any general comments? What are the plans and forecasts for the development of the Arctic in particular?

As to the Port of Churchill, which if I am not mistaken it is at risk of being closed, what impact could its closure have on our overall situation and our relationship with the United States, among other things?

Ms. Wendy Zatylny: Thank you for your question, Ms. Laverdière.

I will try to answer your question in French, but I might have to switch into English since I always think in English.

As to the ports in northern Canada, including Churchill, I must point out that our association represents Canadian port authorities, which is a subset of ports in Canada.

The Arctic has great development potential. The only thing we can say, however, is that we are ready to help, to share our knowledge and experience should the government decide to create a port authority for the ports in the Arctic.

Canadian shipping companies certainly have a great deal of experience. They already serve the Arctic. As I said, with the opening of the Northwest Passage, there is tremendous potential which one hopes will be developed.

The Port of Churchill is a private port. It was privatized by the government. We have seen that the Port of Churchill was in competition with the Thunder Bay Port Authority for wheat shipments. We often wondered why concessions had been made to support the Port of Churchill, since it was a very important location, although that took business away from the port of Thunder Bay.

In our opinion, one of the consequences of the potential closing of the Port of Churchill would be that those shipments would then go to the port of Thunder Bay.

● (1025)

Ms. Hélène Laverdière: Thank you very much.

I have what might be an odd question. You said that from 23% to 25% of containers in circulation go to the United States or arrive in the United States. What about the remaining 75%? Are they from or going to Canada, Europe or Asia?

Ms. Wendy Zatylny: Yes, that is correct.

[*English*]

Madame mentioned Asia, and when we think about Asia we always think of the Asia-Pacific gateway on the west coast, but at the port of Halifax, nearly 50% of its containers now arrive from Asia. There's been a significant change and switch in trade flows.

[*Translation*]

Ms. Hélène Laverdière: You also mentioned an issue that, as my colleagues know, I ask about at nearly every meeting: the border adjustment tax. It is of great concern.

I know it has not yet been adopted and quite possibly never will be. Various stakeholders have nonetheless shared their concerns about it.

What would you recommend to the federal government to exert pressure on the U.S. authorities to make them understand that such a tax could hurt us both, on both sides of the border?

[*English*]

Ms. Wendy Zatylny: That's a great question. It's one that we're dealing with as well.

Part of the answer is to really draw a complete picture for the American government and governors, as well as for the businesses along the continental supply chain, as to what the impact of the border tax would be, by describing to them and getting them to fully understand the complexity of what I've tried to allude to here.

The auto sector speaks much more eloquently on its own than I possibly could, but as I said, we bring auto parts in through our container ports. In Windsor, the parts go back and forth. If you start to impose a border adjustment tax, how do you start to piece it out? Do you start to impose costs every time a piece crosses the border? To be able to describe that, to tell that story, and then also to describe how American manufacturers and American industries also benefit from being able to export back out through Canadian ports, I think, would go a long way in mitigating....

[*Translation*]

The Chair: Thank you, Ms. Laverdière.

[*English*]

Mr. Sidhu, please.

Mr. Jati Sidhu (Mission—Matsqui—Fraser Canyon, Lib.): Thank you, Mr. Chair.

Thank you for your remarks this morning.

I'm a member from British Columbia, and I'll be speaking specifically on the port situation there. Things have changed at the government level, but Madam Clark made a call to ban all American thermal coal coming through B.C. ports. The premier thought at that time that it was an appropriate retaliatory measure against the Trump administration, because it's putting levies on softwood lumber.

I'd like to hear your thoughts on this. Do you agree that it was a reasonable and balanced approach to ban coal? I know it's not B.C.'s jurisdiction. I think the port authority is federal. But what do you make of that comment? Is it going anywhere?

● (1030)

Ms. Wendy Zatylny: Port authorities are agnostic as to the cargo they handle. We are here to support Canadian government trade and economic policies. As a result, we handle whatever is deemed to be desirable and, of course, legal.

I think the comments that were made at the time by the premier point to what I've been talking about all along, which is this notion of symbiosis and interconnectedness. Whether that specific threat were to be acted upon or was simply a way of highlighting the activity that takes place on both sides of the border, the point I made earlier is very true: we are integrated. Valuable cargo from the U.S. goes to Canadian ports and vice versa. A supply chain serves both sides of the border, so if you try to make one unilateral change in one area, you have to be conscious of the impact on the whole picture, because it will have an impact on the whole picture.

What I took from of the premier's comments was her pointing out of that interconnectedness.

Mr. Jati Sidhu: At the same time, she said that the expansion of ports in British Columbia wouldn't be affected by stopping the thermal coal going to the U.S. Is that true? If you're restricting the traffic but still trying to expand the ports, how does it fit into that puzzle?

Ms. Wendy Zatylny: Ports, especially the Port of Vancouver where thermal coal goes, which she was referring to, are multi-use ports. They handle a variety of bulk cargoes, as well as container traffic, as well as the cruises I talked about. On the cargo side, if there's a drop in any one type of cargo, the port and its supply chain partners and its business partners would be looking to augment with other types of cargo, whether increased container traffic or increased bulk in other capacities.

Mr. Jati Sidhu: On a different issue, there's Bill C-23, the agreement on land, rail, and marine transport. As we know, 12 million passengers are pre-cleared before going to the U.S. every year. Do you think the proposed bill would extend the system to other modes of Canadian transportation? Are you familiar with the bill?

Ms. Wendy Zatylny: I am familiar with it. It's not an area that we've looked at too closely, because most of the pre-clearance we deal with is on the cruise side, and the issue has not evolved that much. The only area that has touched one of my members has been through Toronto, which is also an airport, and they're supportive on the pre-clearance side.

The Chair: Thank you, Mr. Sidhu.

We'll go now to Mr. Fragiskatos, please.

Mr. Peter Fragiskatos: Thank you very much, Chair.

Thank you for being here today.

I read the op-ed you wrote in 2014 in *The Globe and Mail* and learned a few interesting things. First of all, I didn't realize that 90% of everything we buy travels by ship. That's an extremely interesting point.

You also cite a 2012 World Bank report that said Canada ranks 14th in terms of efficiency of clearance processes as well as trade and transport–related infrastructure. That report, as I said, was put forward in 2012.

Has there been a significant change from that time in terms of where we rank? I'm not asking you to cite the most recent World Bank report. If you know it, great, but in your view, have we improved, and how else can we improve upon that ranking of 14th, if we're still there?

● (1035)

Ms. Wendy Zatylny: I can cite the report, only because the numbers are so easy. It's a biennial analysis, so in 2014 the World Bank did another analysis, and at that time we had jumped from 14th to 12th.

Again, going to the point I made earlier, the World Bank points out that it's not the absolute ranking that is important for a country, but it's the percentile within which you find yourself. Given that Canada is such a trading nation, by that measure we are punching below our weight. We ought to be among the top 10 of the world's most logistically efficient trading countries.

What they point to in the report.... Again, there is work to be done, some on customs pre-clearance activities, which certainly CBSA has been moving forward on. Then they did point again to infrastructure requirements and infrastructure investment as being another way of vaulting us into that top 10.

Mr. Peter Fragiskatos: A number of commentators have pointed out recently, particularly in the context of the view of and approach to trade that's being seen in the United States, that Canada ought to expand its list of trading partners and move along to achieving free trade agreements with a number of other countries. Certainly we've moved in that direction, concluding an agreement with the EU, but there is now talk of China and India. Vietnam is a very interesting country in terms of the volume of trade between it and Canada. There is also Japan, and many other examples beyond Asia.

As we move down this path—if we do move down it, and I hope we do—could you speak to what would need to be in place from a port authority's perspective, from your organization's perspective, on how to best be ready for that shift in direction?

What do ports need from the Government of Canada? What kind of further supports need to be offered for you to best be ready for a shift in direction toward trading more with various partners and not exclusively, more or less, with the United States?

Ms. Wendy Zatylny: Well, as the global trading patterns shift and evolve, part of any government policy, any trade policy, is to look at those shifting patterns to see how we can capitalize on them. Concurrent with that is the equipment that actually serves to move all of this stuff around, the 90% of everything that moves around the planet at one point or another.

There are two things that we watch: one is the changing global trading patterns, and the other is simply the size of the ships. We've seen a lot of changes within the global maritime industry. The ships are considerably bigger. The container ships back in the early 1990s were in the 4,000 TEU range. Those are like small feeder ships now for the 22,000 TEU ships that are currently being built. These ships are three times the length of football fields. They have huge drafts. They require much greater landside infrastructure to offload and then process all of that out of the port, get it on to rail or on to road.

I keep talking about infrastructure, but that is a major competitive area for us. As the shipping lines move towards larger ships—larger, deeper, longer—we, as ports, have to have the infrastructure in place: the longer turning basins, the bigger cranes, the bigger landside connections. We also need the data processing capability to be able to manage all of that, to handle the cargo efficiently. That's one area. Again, because we are seeing these ships crossing the oceans, coming in from Asia, from Europe, we have to be able to respond to these bigger ships. Therefore, infrastructure investment is one area.

The other, again, is on the regulatory side, to give the ports financial flexibility, through borrowing, permitting, and letters patent amendment processes, so that they can respond as change within the global maritime sector speeds up.

● (1040)

Mr. Peter Fragiskatos: I asked the question because, as you pointed out, 90% of what we buy travels via ship. If there's going to be a greater volume of trade, then obviously we have to be prepared to deal with that.

Thank you very much.

The Chair: Thank you, Mr. Fragiskatos.

Mr. Genuis, please.

Mr. Garnett Genuis: Thank you, Mr. Chair.

Thank you, again, to the witnesses.

I thought your testimony was very interesting. It was a good reminder. You talked about a kind of circuit connection, the interconnection of the markets for different goods, which on its face might not seem in any way related.

I wonder if you can talk specifically about what might be some of the less noted consequences of the softwood lumber tariffs that the U.S. government has imposed. Are there ripple effects in other markets as a result of these tariffs?

Ms. Wendy Zatylny: That's an excellent question, and to be honest it's not one we have looked at very closely. It's something I'm afraid I'd have to go back to the membership on and get back to you.

I can speculate in terms of cargo movement, and certainly the government has talked about opening up other markets for lumber products which would then be flowing through the Canadian ports, whether through bulk ships or in containers. We'd see an increase in cargo flow if we do open up those markets, but that's about all we can say right now.

Mr. Garnett Genuis: Okay, fair enough. Even that's obviously contingent upon the opening up of other markets.

If you have subsequent information that you are able to send to the committee in the context of written submissions later on, I think it would be appreciated, .

I'd like to ask a little about energy exports through our ports. The government has legislation before Parliament now that would, in a legislative way, formalize what had previously been policy for this government to not allow the exports of energy products out of northern British Columbia. That happens, of course, in the context—speaking of the Canada-U.S. relationship—where there are oil tankers coming from Alaska in that same area, the same waters. It's just that the jobs associated with the exports of that are American jobs, not Canadian jobs.

What is the situation with the Kitimat port, the opportunities that might exist there with energy export opportunities that might be lost with this legislation, and perhaps opportunities for energy export to the United States that will be missed as a result of this or that could be made up in some other way?

Ms. Wendy Zatylny: Kitimat is not a port authority, but if I'm not mistaken in my geography, Kitimat is now within both the tanker exclusion zone and the oil spill prevention zone. We look at it from the point of view of the port authorities, which simply means that any of the petroleum product that is available that would have gone out through Kitimat will go out to Vancouver. Again we're agnostic on what cargo is handled. We are here to support the government's policy priorities. That said, the port authorities in all cases have been getting ready and are working with their various terminal partners to be able to plan for and go for that increased capacity should it come.

Mr. Garnett Genuis: Speaking of the interconnections among different products, do you know if the expansion of energy exports enhances the circuit that somehow facilitates importation of other products, or are there impacts of other products expanding our energy export capacity out of, say, Vancouver, since that's obviously within your jurisdiction?

Ms. Wendy Zatylny: The same kind of back-haul system that I talked about has not evolved in the Great Lakes, because the carriers of the products are unique. But I think there is a lot of potential to be looking at the export. Capturing the technology and the knowledge as well around the new fuels such as LNG gives us great potential to expand in a whole area that we haven't been before to serve a global market.

● (1045)

The Chair: I think we'll have to wrap it up there. I want to thank Ms. Zatylny for her presentation on behalf of the port authorities. I think we forget sometimes the importance of our ports. Some of us don't. I come from the railway industry. So shipment of grain to and from Thunder Bay and other ports has always been on our mind.

One of the things that our committee is looking at is obviously the future of our infrastructure, and ports are a very big part of that. I think that's what some of our colleagues were alluding to. If there are studies and analyses done of the direction we will have to take as a country vis-à-vis shipments and ports and the regulatory structure necessary to be competitive, we would very much appreciate your sending them to us to be part of our study.

Ms. Wendy Zatylny: It would be our pleasure, absolutely.

The Chair: Thank you very much.

Colleagues, we're going to take a quick break and then come back for five minutes' worth of committee business, hopefully. Doing so will allow us not to sit on Thursday.

Take a break for a couple of minutes, and then we'll come right back at it.

[*Proceedings continue in camera*]