



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

44th PARLIAMENT, 1st SESSION

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# Standing Committee on International Trade

EVIDENCE

**NUMBER 111**

Tuesday, June 11, 2024

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Chair: The Honourable Judy A. Sgro





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• (1605)

[English]

**The Chair (Hon. Judy A. Sgro (Humber River—Black Creek, Lib.)):** We have quorum, so I call to order meeting 111 of the Standing Committee on International Trade.

Before we begin, I need to ask all members and other in-person participants to consult the cards on the table to prevent feedback incidents for our interpreters. Keep your earpiece away from your microphone at all times. When you're not using your earpiece, please place it face down on the sticker on the table.

Today's meeting is taking place in a hybrid format. We have several people online. For members in the room, please raise your hand if you wish to speak. For members on Zoom, use the “raise hand” function. All comments go through the chair. If any technical issues arise, please let us know, and we will suspend immediately to ensure there is interpretation.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Tuesday, October 17, 2023, the committee is resuming its study of the 2026 CUSMA review.

With us today we have Anna Zalik, professor in the faculty of environmental and urban change, York University, by video conference, and Meredith Lilly, Simon Reisman chair in international economic policy, Carleton University. From the Canadian Cattle Association, we have Dennis Laycraft, executive vice-president, and Jack Chaffe, officer at large. From The Council of Canadians, we have Nikolas Barry-Shaw, trade and privatization campaigner, by video conference. From the Fisheries Council of Canada, we have Paul Lansbergen, president. Finally, from the U.S. Chamber of Commerce, we have Sean Heather, senior vice-president of international regulatory affairs and antitrust.

Welcome to you all. Thank you for being here. I apologize for the late start, but I think you've all been here often enough to know how it all works.

We'll start with opening remarks from Dr. Zalik for up to five minutes.

**Dr. Anna Zalik (Professor, Faculty of Environmental and Urban Change, York University, As an Individual):** Thank you very much to the chair and the committee for the invitation to present insights here, and to Clerk Sophia Nickel for her assistance in making this possible.

Over the past 20 years, my research has concerned the geopolitics of the oil industry. I have conducted extensive fieldwork in oil-

producing regions in Mexico, among other regions, and Nigeria. I have also researched oil and gas regulation in Canada, as well as the role of Canadian extractor firms at the UN agency responsible for managing deep-sea mining in the seabed outside state jurisdiction, the International Seabed Authority.

Recently, a significant portion of my work has concerned Canadian investment in the restructured Mexican energy sector brought about by Mexico's controversial 2013 energy reform. At present, I speak to you from Mexico City, where we just completed the Mexican leg of a binational intensive field course on the CUSMA. The second and final week of this course will continue at York University in the last week of June. I would note that Canada's renewed and sudden visa restrictions on Mexico at the end of February created a significant and unexpected logistical problem for us in planning the course, and I would underline that policy change as an irritant in ongoing relations between the two countries.

Since the implementation of the Mexican energy reform, and over the past decade, the continental energy relationship has transformed, particularly as the United States, which had previously been a net importer of fossil fuels, including from Canada and Mexico, became a net global exporter, in particular of natural gas from its fracking boom to the Mexican energy grid. Although this predated COVID, this exhibit of so-called nearshoring in the pandemic's aftermath is often invoked as a means to prevent supply chain blockages through physical and often terrestrial proximity. However, the result here has involved a reversal in Mexican energy sovereignty in a form similar to the reversal in Mexican food sovereignty that resulted from the NAFTA accord, after which Mexico shifted from being a net exporter to a net importer of corn. The same has occurred now with relationships to Mexico's hydrocarbon supply.

The gas that is delivered to Mexico comes by a pipeline system in which Export Development Canada has been a significant investor, particularly given the role of TC Energy, formerly TransCanada PipeLines, as a major Canadian investor in Mexico. Indeed, in recent years, TC Energy has touted itself as the single largest Canadian investor in Mexico. TC Energy's major role in the distribution of gas across the continent has come at a considerable cost not only to Mexican energy sovereignty, but to broader civil society's role across North America in meaningful climate policy. This is seen, for instance, in TC Energy's controversial ISDS case against the U.S. government for the cancellation of the Keystone XL pipeline expansion.

That climate change and indigenous rights receive limited substantive treatment in CUSMA is a significant area for consideration in the review, as is the need to take advantage of the best aspects of CUSMA to develop a continental climate plan for a collectively managed transition off of fossil fuels. The lack of language or an annex on climate agreements makes all three states in the agreement vulnerable to claims if they seek to alter their domestic policies to reduce overall carbon emissions. For Mexico, this is particularly acute, given annexes and articles that prevent Mexico from reforming particular elements in its electricity sector. These tensions are seen in the tabling of complaints by both Canada and the U.S. in the last couple of years in relation to the role of bodies such as Mexico's Federal Electricity Commission and Pemex.

A proper plan for continental energy transition would require independent ongoing modelling and research that would entail an analysis of the life-cycle emissions and hazards posed by various energy sources, including from the process of extracting and continentally transporting fracked gas. This would require a substantive and enforceable raising rather than lowering of the bar that made accidents such as the one in Lac-Mégantic, Quebec, possible.

This would also require the end of the threat of ISDS on Mexico should it wish to modify contracts or promote its own energy sources, because at present, Mexico is at risk of these being interpreted as negatively impacting private Canadian and U.S. firms. A proposal to this effect, I note, is included in the Canadian Centre for Policy Alternatives' recent publication on the CUSMA review, which calls for a moratorium on trade and investment rules that would challenge climate change policies. It also calls for a rapid response environmental enforcement tool, similar to the successful rapid response labour mechanism, which we discussed in significant detail in the course in Mexico City over the past week.

● (1610)

I would note here that CUSMA can be updated to strengthen continental leadership, not only in labour rights, as the CUSMA agreement does and stands out internationally for, but also in environmental and social policy, thus in indigenous rights, climate commitments and notably on the protection of migrants. Also, the U.S., Canada and Mexico creating a level playing field in labour protections by raising them and in the enforcement of global norms around upholding indigenous rights and substantive emissions reductions, as well as investigating gender-based violence in the context of domestic work, would be essential elements in confronting key contemporary global challenges.

I would end by noting that expanding the existing rapid response mechanism for labour violations to agriculture and migrant labour and adopting a similar kind of mechanism for disputes around environmental conditions—so they would be handled in an effective and efficient form—and disputes over indigenous rights and human rights more broadly would create the basis for all three parties complying potentially with their requirements under the IPCC and the Paris Agreement.

I thank you very much for your time and consideration. I'm happy to discuss these comments further.

**The Chair:** Thank you very much, Dr. Zalik.

Go ahead, Dr. Lilly.

**Dr. Meredith Lilly (Associate Professor and Simon Reisman Chair in International Economic Policy, Carleton University, As an Individual):** Thank you, Chair Sgro and committee members, for the invitation to be here today.

I teach North American trade relations, and this is my primary area of research. I participate in a number of trilateral initiatives focused on North American trade, including those led by U.S. and Mexican partners. I write extensively on the implementation of CUSMA, and I'm completing a report now on the upcoming review, which I'd be pleased to share with the committee.

I'm really pleased that the committee has established this study and I hope it marks the beginning of a sustained parliamentary focus on this important file.

Canada's objective for the 2026 review should be the extension of CUSMA by all three countries. Realistically speaking, this is going to be challenging, but it should be our goal nonetheless. In order to be successful, it is incumbent on Canada to prepare extensively over the next year.

I want to underscore the urgency, because July 1, 2026, represents the cleanest opportunity to reach a trilateral agreement to extend the agreement for 16 more years. If that doesn't occur, then a joint review will take place, and reviews will continue annually until all three countries agree to extend the agreement or it eventually terminates in 2036. Clearly, the latter scenario of annual reviews would be destabilizing for business and would undermine trade and investment certainty in North America.

Today, I'd like to focus my comments on three processes Canada should put in place now to secure the best possible outcome for our country in 2026.

First, the proactive engagement by this committee to launch this CUSMA study must be paralleled at the officials' level. We need a named senior official at Global Affairs to lead Canada's activities, and this work should be their exclusive daily focus. Their team should launch broad consultations with Canadian stakeholders on the implementation of CUSMA, and they should work to develop solutions to the irritants they encounter before 2026. They should also work to develop proposals to address new shared trilateral challenges, such as artificial intelligence, digital privacy and the disruptive consequences for electric vehicle supply chains and national security. Canada can lead the development of proposals for adoption by CUSMA partners, which focus on North American-made parts and production, to reflect industry changes while satisfying the interests of all three countries.

Canada can't wait for pressure from the U.S. to launch our own domestic CUSMA review process. This year, Americans will be preoccupied with the U.S. presidential election. However, when the U.S. Congress turns its attention to its own U.S. domestic review in 2025, it will be understandably focused on advancing U.S. interests. The best way for Canada to steer the six-year review toward our desired outcomes, then, is to have developed our solutions by the spring of 2025. Committee members should know that Mexico has already announced the launch of its own domestic consultations.

Second, if the extension of CUSMA in 2026 is Canada's goal, then we have to demonstrate that it's working well now, which, for the most part, it is. In addition, we must demonstrate that dispute-settlement processes can be effective. Doing this means encouraging all three countries to abide by rulings under the CUSMA process, even when our interests are not satisfied, such as on aspects of Canada's tariff rate quota allocation process for dairy.

However, implementing CUSMA in good faith also means not adopting legislation and regulatory measures that contravene CUSMA and antagonize the Americans. For example, on digital trade, the Online Streaming Act would be in violation of the chapter of CUSMA on digital trade were it not for Canada's cultural exemption. Similarly, unilateral action by Canada to introduce a digital services tax would discriminate against large U.S. firms. We should be prepared for U.S. retaliation if these measures are enacted, and Canadian lawmakers should be aware of the damaging consequences for the broader CUSMA review process.

Third, as committee members know, China will be the elephant in the room leading up to and throughout the CUSMA review. In particular, the new tariffs on Chinese EVs, steel, and aluminum announced by President Biden will necessarily impact the integrated North American supply chain. This U.S. trade action will increase the likelihood of a surge in transshipment by China through Canada and Mexico, and it is vital that Canada not be regarded as a leaky entry point into U.S. markets. Just as Canada resolved to align with the U.S. on its Inflation Reduction Act incentives to encourage domestic battery and EV production, it now follows that Canada will need to address Chinese subsidies, overcapacity and potential dumping on the Canadian market. Given the current global dependence on Chinese critical minerals and processing capacity, Canada must weigh its options very carefully. Mexico faces its own challenges in this regard, particularly with respect to onshore Chinese

investment. Nevertheless, since maintaining open, tariff-free trade with the U.S. reflects Canada's most important economic interest, we must address this issue.

• (1615)

I hope these three recommendations can help position Canada to achieve its ultimate objectives for a successful extension of CUSMA in 2026. Millions of Canadians rely on the agreement's success, and your committee is engaged in vital work.

I look forward to answering your questions.

**The Chair:** Thank you very much, Dr. Lilly.

Is it Mr. Laycraft or Mr. Chaffe next?

**Mr. Jack Chaffe (Officer at Large, Canadian Cattle Association):** It's Jack Chaffe.

On behalf of the Canadian Cattle Association, the CCA, I'd like to thank you very much for the opportunity to speak to your committee today about the CUSMA review. My name is Jack Chaffe and I'm the officer at large for the CCA. I have a feedlot in southwestern Ontario, where I farm with my family. Joining me today is Dennis Laycraft, executive vice-president of the CCA, who will be here to answer questions later.

The CCA represents 60,000 beef producers across Canada, from cow-calf farms and ranches through to feedlots. Our sector generates \$21.8 billion for Canada's GDP annually, and trade is key to our economic success. Of our beef production, approximately half is exported to international trade and adds about 40% of the value to each animal. Looking at North America, the U.S. is our largest trading partner, and Mexico is our third-largest partner, falling in behind Japan.

Historically, the CCA has been involved in the CUSMA negotiations and those of its predecessor, NAFTA, and its predecessor, the Canada-U.S. trade agreement. I mention this because historically, the North American trade of live cattle and beef has always been our highest priority. For our exports, we send 85% to the U.S. In 2023, the value of live cattle and beef exports to the U.S. and Mexico exceeded \$6 billion.

It is essential that all three governments look at the CUSMA review with a "do no harm" approach, focusing on success for all three countries.

The CCA, together with our American and Mexican counterparts, holds three trilateral meetings annually. We work together to strengthen North American trade and combat global challenges. At our most recent meeting, we discussed the upcoming review. Our three national associations are united in ensuring a strong North American integrated beef supply chain. At our upcoming meeting this summer in Saskatoon, we will be reviewing the CUSMA and coming out of there with a unified statement moving into the 2026 review. The integration of the North American beef sector has demonstrated its resilience in challenges, such as working through the pandemic and during weather-related issues, and it has come up with a strong integrated supply chain.

As we discuss the 2026 CUSMA review today, I would be remiss if I did not mention the current challenge we are facing with the U.S.—its final ruling on voluntary “product of U.S.A.” labelling, which will also come into effect in 2026. The CCA and the Government of Canada submitted extensive comments to the USDA expressing our concerns about this ruling and suggesting that an alternative would be consistent with international practices, which the USDA’s ruling clearly is not. Furthermore, the U.S. is making the ruling mandatory for federal procurement requirements.

The CCA continues to work on this file with the AAFC, Global Affairs Canada and the Canadian embassy in D.C., and we are monitoring closely the segregation of cattle, which would impact beef producers on both sides of the border. We remain concerned that the ruling will lead to discrimination against live cattle imports and undermine the beneficial integration of the North American supply chain.

In the context of today’s study, it is key that your committee is aware of these trade tensions. We encourage the committee to take a team Canada approach as we look at the 2026 CUSMA review. There is a lot at risk, and we emphasize the “do no harm” approach. We echo the National Cattle Feeders Association, which was at your committee last week, in terms of focusing on regulatory cooperation and ensuring that trade-enabling measures are the goal rather than new tariffs and trade restrictions.

As we’ve seen in the past, our message is stronger when we work together with the federal and provincial governments and with industry. On behalf of Canadian beef farmers and ranchers, we remain committed to working with you for the best trade outcome in 2026.

Thank you.

• (1620)

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

I need to check with the committee. There are seven minutes left. If members want to leave to vote in the House, I can suspend the meeting if that’s the will of the committee.

Does the committee want to continue for another five minutes and then suspend?

I’m going to suspend until members have had an opportunity to vote and return back to the committee.

• (1625)

(Pause)

• (1650)

**The Chair:** I call this meeting back to order.

I apologize for the delay.

Mr. Barry-Shaw, I invite you to speak to the committee for up to five minutes, please.

**Mr. Nikolas Barry-Shaw (Trade and Privatization Campaigner, The Council of Canadians):** Hi there. My name is Nik Barry-Shaw. I’m the trade and privatization campaigner with The Council of Canadians, which is a grassroots membership-based organization comprising 43 chapters across the country and uniting over 150,000 supporters from coast to coast to coast.

I’m happy to be here to speak about the CUSMA review because as some of you may know, the council was founded in 1985 in the crucible of debates around continental free trade, first with the United States and then with Mexico. Throughout our organization’s history, we’ve campaigned against corporate trade deals like NAFTA that put profits before people and the planet.

The first thing I want to remark on is that we’re in a strange moment. At the political and media elite level, there is a very strong consensus in favour of continuing with these trade deals as is, yet there is simultaneously a recognition that they’ve done a tremendous amount of harm to ordinary Canadians. Even diehard defenders of free trade, like Andrew Coyne, have basically been forced to admit that the economic results of the last 30 years have been dismal. In a recent column, Coyne wrote that despite Canada’s trade and broader economic policies being “an example of everything that orthodox economics would recommend as recipes for prosperity”, Canada’s productivity has slumped and growth rates have fallen. How could this be? Coyne wrote, “We did everything right!”

The confusion felt by defenders of that orthodoxy is not something that afflicted The Council of Canadians or its allies in the fight against these free trade deals. When they were first being negotiated, we argued that they would decimate manufacturing employment and drive down workers’ wages in Canada as corporations restructured production in search of the lowest costs. We argued that investor-state dispute mechanisms, as in NAFTA’s chapter 11, would allow corporations to sue governments even if they were pursuing legitimate efforts to regulate business and protect the environment. We argued that the pressure to attract increasingly footloose foreign investment through subsidies and corporate tax cuts would inevitably erode our fiscal base and therefore our public services, most notably our health care system.

It gives me no pleasure to note that these warnings from The Council of Canadians over the years about what free trade would bring to us are largely correct. Rather than a vigorous competitive economy, Canadians have an economic landscape dominated by oligopolies, the result of corporate consolidation on a continental scale, rather than a rising tide that lifts all boats. Canadians have experienced stagnant wages, rising prices, and spiralling income and wealth inequality.

The renegotiation of NAFTA into the Canada-United States-Mexico Agreement brought several welcome departures from this tired and discredited economic orthodoxy, notably the removal of chapter 11 and the creation of the rapid response mechanism to protect Mexican workers against violations of their right to form a union. The 2026 review of the CUSMA is an opportunity to continue in this direction. For that reason, The Council of Canadians wholeheartedly supports efforts to expand enforceable labour rights protections by widening the scope and applicability of the rapid response mechanism to all workers in North America and to a broader list of labour rights violations. We also strongly believe that the last vestiges of NAFTA's chapter 11, which live on in the CUSMA's more limited chapter 14, should be done away with, as should investor-state dispute settlement mechanisms in other treaties that continue to constrain legitimate efforts to take on climate change and to protect the environment.

However, it's not clear to us that it's possible to fully reverse-engineer the CUSMA into a trade and investment agreement that places workers' rights, climate action and environmental protection ahead of corporate profits. Despite the removal of chapter 11, the CUSMA continues to hamper the Mexican government's efforts to reassert its energy and food sovereignty.

I'll just give you one recent example. In February 2023, the Mexican government announced its intention to ban the pesticide glyphosate and to phase out genetically modified corn. In response to the outcry from U.S. agribusiness, the U.S. government initiated a trade challenge, not under chapter 11 or chapter 14 but under chapter 31, citing violations of the CUSMA's sanitary and phytosanitary standards. While the Mexican government has emphasized the need to protect indigenous varieties of maize from genetic contamination by GM corn, the U.S. has attempted to narrow the issue to whether GM corn is safe to consume, claiming that Mexico's phase-out is not "science-based".

• (1655)

The trouble with the regulatory standard in CUSMA, in addition to rejecting the precautionary principle and the wider concerns about food sovereignty that have motivated Mexico's decision, is that it ignores the enormous upstream efforts to warp the "science" deployed by agribusiness and other industries. As the Monsanto papers revealed, this went as far as recruiting scientists to publish studies that ultimately defended the safety of their products, some of which were secretly reviewed by Monsanto prior to publication.

This is an issue that The Council of Canadians, and especially its Northumberland chapter, has been paying a lot of attention to. Unfortunately, the Canadian government has sided with the U.S. in this dispute and has blocked the efforts of our Northumberland chapter to present arguments in favour of this phase-out.

I'll close by saying that the scale of the problems we face, including the climate crisis first and foremost, requires a rethinking of the entire economic model that these deals were meant to entrench. We need trade and investment agreements that will help rather than hinder the shift away from fossil fuels and the massive public investment in infrastructure and green manufacturing that it requires. We need trade deals that increase rather than erode workers' bargaining power, and we need trade deals that facilitate the rebuilding of our public services, which have been worn down by years of neglect.

Thank you.

• (1700)

**The Chair:** Thank you very much, Mr. Barry-Shaw.

We're moving on to Mr. Lansbergen.

**Mr. Paul Lansbergen (President, Fisheries Council of Canada):** Thank you, Madam Chair, for the invitation to testify today. Since it was only late last month that I testified before this committee, I will forgo my usual introduction of FCC and the sector.

The Canadian seafood sector accounts for \$7.6 billion in exports to over 100 countries, and our southern neighbour is our largest market at \$4.8 billion of our exports, more than triple the next market. Also noteworthy is that our seafood imports from the U.S. are worth \$1.2 billion, leaving us with a trade surplus in seafood of \$3.6 billion. I'm pleased to say that our seafood exports to the U.S. are up 57% over the last decade. It goes without saying that we value our trading relationship with the U.S.

Our top export products to the U.S. are lobster, at \$1.6 billion; crab, at \$1.1 billion; and salmon, at \$975 million, the latter being farmed. Halibut and scallops are the distant fourth and fifth, both nearing \$200 million. The top imports are salmon, at \$415 million; lobster, at \$283 million; and crab, at \$140 million. Scallops are at \$29 million and cod is at \$17 million, rounding out the top five.

Under NAFTA, fish and seafood had no tariffs, and that remains the case under CUSMA. Obviously we would want this situation to continue. The important thing to remember is that the U.S. is a net importer of fish and seafood, to the tune of \$20 billion annually. That represents 80% of their domestic market. This circumstance could motivate an administration to apply a tariff in the belief that doing so could help the domestic industry. Former President Trump did this with tariffs against Chinese imports, and seafood is the most globally traded food commodity. The global supply chain is complex, and products can be exported and re-exported before they reach their final consumer, so the impacts of tariffs in the U.S. are equally complex. Suffice it to say that we prefer free trade.

Of equal importance is how CUSMA protects us from non-tariff barriers. We don't want other government actions to disadvantage or prohibit our access to the U.S. market. Just a couple of weeks ago, we talked about restrictive import policies and whether they were creating undue barriers to Canadian exports of fish and seafood. Granted, there are some real challenges in the global industry, which governments need to address individually and collectively, but it's important to do so in a way that does not unduly restrict trade.

CUSMA has a dispute-resolution mechanism, which is vitally important, and there are mechanisms under WTO, but the challenge with them is that they are very time-consuming and the offending measure is in place during proceedings, meaning that the damage continues to be done. Reimbursement or retribution after the fact is sometimes cold comfort. Having said that, these provisions are like insurance: You hope you don't need them, but you don't want to get caught without them.

The best way to deal with non-tariff barriers is to try to prevent them in the first place. In order to do that, we need to have a positive relationship built on constructive and regular dialogue. This needs to happen government to government, but also industry to industry. For example, DFO, Agriculture Canada and the CFIA are able to engage with their counterparts to discuss issues of mutual interest. In fact, the NOAA recently reached out to DFO to discuss their review of the seafood import monitoring program, or SIMP, and Canada was the first country called for input. This is helpful and is a signal of a good relationship.

On the industry side, the FCC has a good relationship with our American counterpart, the National Fisheries Institute, and we compare notes on issues of mutual interest. The most recent examples are SIMP and some proposed EU regulations that could affect live lobster exports from both countries. We sought their views on the SIMP review, and we brought to their attention the proposed regulations on animal health transport. The relationship between the two countries is also supported by the fact that they provide secretariat services to the International Coalition of Fisheries Associations, of which I am the current chair of the board. We work closely on behalf of members of our international group, and our respective participation in international dialogues enables more regular conversations about current events.

To sum up, we need CUSMA, as it provides important structure to our trading relationship, but we need to be engaged and present in regular dialogue. Having a team Canada approach is an important step in the lead-up to the CUSMA review.

With that, I thank you and look forward to your questions.

● (1705)

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

Mr. Heather, go ahead, please.

**Mr. Sean Heather (Senior Vice-President, International Regulatory Affairs and Antitrust, U.S. Chamber of Commerce):** Madam Chair, on behalf of the U.S. Chamber of Commerce, I thank you for the invitation and the opportunity to be here to provide testimony to the standing committee as it evaluates actions ahead of the CUSMA review.

The chamber has a long-standing commitment to the North American economic relationship. No organization in the United States has been a more vocal advocate for a strong and mutually beneficial partnership with Canada and Mexico. We are guided by principle, not politics. We defend and promote free enterprise, free markets, rules-based trade and investment, and the rule of law.

The trilateral relationship goes beyond the impact of our \$1.7-trillion annual three-way trade to include significant direct investment ties and highly integrated value chains that support millions of jobs across all three countries. Our three countries have the potential to expand this important relationship and work together to meet shared challenges, such as the diversification of semiconductor production, energy security, energy transition, food security and critical minerals.

CUSMA is intended to facilitate closer economic co-operation and provide legal certainty for cross-border trade and investment. The chamber calls on each of the three governments to address implementation and compliance issues and uphold the spirit and letter of the agreement. In short, we each must keep our word.



For example, the chamber has called for the U.S. government to uphold the dispute settlement panel ruling on automotive rules of origin published back in January 2023. As we aim to make North America the most competitive global platform for vehicle production, the future of the continent's automotive industry depends on the certainty provided by this agreement. In addition, maintaining our competitive edge also means avoiding the expansion of U.S.-driven buy American policies. In short, we need to recognize that in North America, we make things together.

At the same time, we appreciate the opportunity to highlight areas that require Canada to fulfill its CUSMA commitments. Canada is advancing an ambitious digital agenda. We are concerned that Canada is looking to bolster its competitiveness at times by targeting U.S. businesses. Such policies not only erode Canada's culture of innovation and competitiveness, but also undermine Canada's commitment to maintaining open and fair business climates.

First, I'd like to flag our concern with the Canadian Radio-television and Telecommunications Commission's decision to impose an initial based contribution of 5% on U.S. streaming services. This decision fails to recognize the investments made by American streaming services in Canada's creative sector. Indeed, Americans can hardly turn their televisions on without seeing programs created here in Canada.

Consequently, Americans find it ironic that Bill C-11 specifically targets U.S. companies in a manner that may violate Canada's international trading obligations, including those under CUSMA. This action appears to contravene commitments that guarantee a minimal standard of treatment, require equal treatment of foreigners and local enterprises, and obligate Canada to refrain from imposing certain performance requirements on foreign direct investment.

Second, we have a deep concern over the potential for Canada to reintroduce its unilateral digital services tax by implementing Bill C-59. The DST is set to introduce discriminatory measures against U.S. companies, violating Canada's obligations under CUSMA and the WTO and contradicting Canada's commitment to the G20 OECD process. Adding to our concern is the fact that Canada's proposed DST is two and potentially three years retroactive. We would note that the Office of the United States Trade Representative has investigated several measures substantially similar to those proposed by Canada—including a French DST, on which the Canada version is modelled—and found them to be unreasonable or discriminatory and burdensome or restrictive to U.S. commerce and thus actionable under U.S. trade law.

Last, we have serious concerns with the artificial intelligence and data act, which is part of Bill C-27, currently being studied by our colleagues in the House of Commons industry committee. In its current draft, the bill is overly broad and restrictive, capturing a potentially endless number of low-risk use cases that risk putting Canada out of step with the U.S. and other important trading partners on AI regulation. If it moves forward, we are concerned that it will have an adverse effect on Canada's competitiveness, hinder AI development, limit business exploration and ultimately affect productivity and economic growth. During our visit to Ottawa this week, we'll be hosting an AI policy dialogue precisely to discuss some of the challenges and opportunities related to AI.

At the chamber, we are focused on keeping the 2026 CUSMA review in perspective. While the three trading partners are sovereign states, no one has identified a compelling reason to undertake a wide-ranging renegotiation of this agreement. Primarily, this upcoming review is an opportunity to ensure implementation and compliance with the existing commitments. Having said that, Canadian policies such as Bill C-11, the proposed DST, and Canada's approach to AI all have the potential to complicate this review. Perceptions that Canada is violating CUSMA commitments will serve to increase pressure to criticize the agreement during the review process.

In closing, the chamber stands ready to work with our partners in Canada to continue to build a strong North American partnership. We thank you for this opportunity to share our views at this hearing and look forward to your questions.

● (1710)

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

We have approximately 20 minutes remaining. I suggest we complete round one with five minutes for each member.

Mr. Seeback, you have five minutes.

**Mr. Kyle Seeback (Dufferin—Caledon, CPC):** Thank you very much, Madam Chair.

I'm very interested to hear what Dr. Lilly and Mr. Heather just talked about regarding trade irritants. My concern, as we look into this review—I've called this out in other committees—is that we're going through a series of what I call “own goals” in Canada that will potentially frustrate it.

I want to ask both of you, Dr. Lilly and Mr. Heather, about the online streaming act, the DST and Bill C-27. If these all go through and are implemented, as it looks like the current government wants to do, will it make the CUSMA review easier or more complicated, in your view?

**Dr. Meredith Lilly:** If the online streaming act and the digital services tax move forward, I fully expect action to happen before the 2026 review. I think the Americans will respond.

The two pieces are slightly different. The online streaming act can trigger retaliation associated with the cultural exemption in a way that is different from the digital services tax. We could expect retaliation on the online streaming act any time after it comes into effect. If the Americans want to dispute the digital services tax, they would have to open a chapter 31 case.

Both of these things will complicate the process and result in a full review if they aren't addressed before then.

**Mr. Sean Heather:** I agree with Dr. Lilly on the likelihood that if these three things come into force, there will be a response from the United States, perhaps before the CUSMA review. That's not to suggest this would be the end of it. However, these things would certainly be part of that review process and a weight on moving the review process forward successfully.

**Mr. Kyle Seeback:** Dr. Lilly, you talked a bit about anti-circumvention and anti-dumping with respect to what's going on with Chinese EVs and steel. We have a bad record under this government of responding to these issues. We were broadsided by 232 tariffs on aluminum and steel because we were viewed as the dumping ground for things in the United States. When the Canadian Steel Producers Association came before committee, they said the legislation in place in the system is not sufficient to deal with anti-circumvention. They've been calling on the government to make changes to that to prevent exactly what happened with the 232 tariffs, but nothing has changed.

Do you see it as a problem, as we head into this review, if something is not done to make sure we're not the dumping ground?

**Dr. Meredith Lilly:** Canada will have to respond to the EV issue soon, probably sooner than the CUSMA review.

When it comes to circumvention and port inspections, Canada is not doing enough. We can see that with things like enforcing the elimination of forced labour from our supply chains. There were concerns among the Americans during national negotiations regarding the transshipment of Chinese steel and aluminum through Canada. That's constantly on the radar of the Americans. It's something we'll have to watch very carefully.

There will necessarily be increased pressure both as the Americans move forward with their tariffs on Chinese EVs and as the EU moves ahead. We expect details on that this week. Any country that doesn't have similar measures in place is going to become a target.

It's something we need to take very seriously, and we need to increase our enforcement around these issues.

• (1715)

**Mr. Kyle Seeback:** It's shocking to me that we're always so slow compared with other countries around the world when it comes to responding to these things.

You raised the issue of forced labour. That was part of the renewed CUSMA. Canada has an absolutely abysmal record on stopping the importation of goods made with forced labour, especially Uyghur forced labour in Xinjiang. The U.S. has an entities list. They've seized billions of dollars of goods. Canada has done absolutely nothing—we've seized nothing.

Do you think Canada's clear inability to even honour, under the current government, our obligations under CUSMA on the forced labour issue could be an impediment?

**The Chair:** I'm sorry. I have to ask for a brief answer.

**Dr. Meredith Lilly:** I think it's less of an issue for CUSMA, but it could come up.

Canada is not doing the right thing. We should take these responsibilities and these human rights violations very seriously.

**The Chair:** Thank you.

Mr. Sidhu, you have five minutes.

**Mr. Maninder Sidhu (Brampton East, Lib.):** Thank you, Madam Chair.

Thanks to the witnesses for taking the time to be here today.

My question is for Mr. Heather.

As you know, trade within Canada, Mexico and the U.S. supports millions of jobs in our respective countries. To my understanding, 49 U.S. states count Canada or Mexico as one of their top three merchandise export markets.

Would you say there's widespread awareness in the United States—in municipalities and states—of the economic value of trade and jobs impacted at the local level?

**Mr. Sean Heather:** Trade has never polled as a top political issue in our national politics, but I think every American values what trade has brought to their daily life.

You asked a question about what level trade is at in the consciousness of the average American. It's difficult to crystallize that, because in some ways, it's not something they think about when they go to the polls. At the same time, Americans very much value the products and services on American shelves that come from around the world.

**Mr. Maninder Sidhu:** To follow up on that, what can we do to further improve the understanding of trade among our countries? I know that in the past, pages have been taken out in newspapers to express the meaningful impact that our trade has had on U.S. cities. Is there more we can do to raise awareness within U.S. cities and towns?

**Mr. Sean Heather:** The U.S. Chamber of Commerce is made up of about 3,000 state and local chambers. For every major trade agreement the United States has been a party to, we have activated the federation of state and local chambers to help tell that story. Often, we have taken with us from Washington ambassadors of our trading partners to do whistle-stop tours in various states. They get out and meet folks in the communities where trade is happening. We are prepared to continue that in support of the CUSMA review.

**Mr. Maninder Sidhu:** As you know, the Prime Minister announced our team Canada engagement strategy with the U.S. earlier this year, led by Minister Ng, Minister François-Philippe Champagne and Ambassador Hillman. Part of my role is to go out to municipalities across Canada to see if we can bring in those stories and share them with our U.S. counterparts.

Mr. Chaffe, what are your conversations like with some of your counterparts down in the U.S.? What do you think the government should be focusing on with our U.S.-team Canada engagement strategy?

**Mr. Dennis Laycraft (Executive Vice-President, Canadian Cattle Association):** It's Dennis Laycraft. That's a great question.

For many years, we've maintained a very active communication strategy in the United States. We go to many of the state meetings. We participate in what's called the SARL—State Agriculture and Rural Leaders—meeting and the Pacific NorthWest Economic Region meeting. There's one in the east. There's the NASDA—

**The Chair:** I'm sorry. I have to interrupt.

The bells are ringing. It's a 30-minute bell.

Is the committee okay to continue until we get to 5:30?

**Some hon. members:** Agreed.

**The Chair:** Thank you.

You have a minute and 35 seconds remaining.

• (1720)

**Mr. Dennis Laycraft:** As Mr. Chaffe mentioned, we have trilateral meetings three times a year where we work with our counterparts in the U.S. We have a great relationship with the associations at the state level. Governors are very influential down there. We consider our work there to be almost as important as our work here, as we export almost half of our production to the United States. There's been a mutually beneficial relationship that has grown as a result of this.

Mentioned earlier was a question about how much people in the United States appreciate the importance of trade. To be honest, that's a question we should ask in Canada. There's a lot more work we all need to do to talk about how beneficial this North American agreement is for our industry. It's the lifeblood for many of our producers, so we must be able to maintain it and go forward.

**Mr. Maninder Sidhu:** I have about 20 seconds left.

In terms of the states in the U.S., where do you think the Canadian government should be focused in relation to your industry?

**Mr. Dennis Laycraft:** It's on regulatory co-operation. We just went through a period with climate issues. For part of one year, we

were importing seven unit trains of corn a week because we were short. Suddenly it flipped. In August, we started sending unit trains of feed grain south because they were short.

There's a mutual benefit when we have these integrated supply chains. The more we talk about how important that is to food affordability in North America and to having the regular supply we all take for granted.... You can reach the average person when you have that conversation.

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

Monsieur Savard-Tremblay, you have five minutes.

[Translation]

**Mr. Simon-Pierre Savard-Tremblay (Saint-Hyacinthe—Bagot, BQ):** Thank you, Madam Chair.

It was my intention, as you probably saw, to move a motion. I won't move it today, since we don't have much time for debate, but I would still like to use some of my speaking time to quickly read it out. I hope we will take some time to discuss it at the next meeting. It reads as follows:

Whereas the Duty Free Shop Regulations under the Customs Act clearly state that goods in duty free stores are for immediate export only, and must be declared under the Act if returned to Canada;

Whereas duty-free stores are subject to strict location, inventory, declaration and storage requirements to ensure that all products sold there are exported for consumption outside Canada;

That the Committee recommend that the government recognize duty-free as an export industry, that a clear indication of the nature of this industry be conveyed to all federal agencies concerned, and that it report back to the House before the end of the current session of Parliament.

I will end the digression and return to the witnesses, whom I thank for their opening remarks.

Mr. Deather, first of all, the U.S. government's position during the renegotiation of NAFTA was to oppose the investor-state dispute settlement mechanism. We know that the Trump administration exerted considerable pressure to put an end to what was then called chapter 11.

Is that the position of the U.S. Chamber of Commerce as well?

[English]

**Mr. Sean Heather:** If I heard the question correctly, it was what the chamber's position is on the chapter 11 investment provisions. The chamber strongly supports the bilateral investment treaties and investment chapters of our trade agreements. We were not supportive of the removal of chapter 11 from NAFTA as it relates to the U.S.-Canada relationship, but we are supportive of what remains in the agreement vis-à-vis Mexico.

[Translation]

**Mr. Simon-Pierre Savard-Tremblay:** So you disagreed with the U.S. administration's position at the time.

[English]

**Mr. Sean Heather:** Yes, we were. It's not unique that we disagree with our own government. It happens routinely. The position of the United States was largely driven out of the belief that the U.S. should not be investing abroad. We believe that U.S. investment abroad is a good thing, just as we think foreign investment going into the United States is a good thing.

The politics around that decision may have been different in the United States from what they were in Canada, but for those reasons, we opposed it.

[Translation]

**Mr. Simon-Pierre Savard-Tremblay:** Mr. Barry-Shaw, earlier, I heard you say that you didn't share that position at all. You were in favour of eliminating chapter 11 of NAFTA, but you also say that a small part remains that should be removed.

Could you elaborate on that?

• (1725)

**Mr. Nikolas Barry-Shaw:** Yes.

I believe there remains, in chapter 14, a portion of what was previously chapter 11, which will apply to certain strategic sectors, including energy and telecommunications. I don't have a list off the top of my head of all the sectors that chapter 14 still applies to, but it means that Mexico, in its efforts to exercise its sovereignty over its energy sector, is potentially exposed to lawsuits from American investors.

**Mr. Simon-Pierre Savard-Tremblay:** Finally, if I understood your position correctly, in the event of a dispute, we should stick to a state-to-state dispute settlement mechanism. In other words, investors must not be on an equal footing with a state, and if they feel wronged, they must rely on their own country to resolve the dispute between states.

**Mr. Nikolas Barry-Shaw:** Yes, precisely.

**Mr. Simon-Pierre Savard-Tremblay:** All right, thank you.

Ms. Zalik, you're an environmental professor, if I understand correctly. If we want to tackle the climate crisis, we need to enforce more regulations to protect the environment.

Does CUSMA, in its current form, empower states with the sovereignty to enforce the necessary environmental measures?

[English]

**The Chair:** Monsieur Savard-Tremblay, I'm sorry, but the individual you were asking the question of is having technical difficulties.

**Dr. Anna Zalik:** I've returned now.

[Translation]

**Mr. Simon-Pierre Savard-Tremblay:** Did you understand the question?

**Dr. Anna Zalik:** I didn't hear the question.

[English]

I had to disconnect and reconnect due to a problem. I'm sorry.

[Translation]

**Mr. Simon-Pierre Savard-Tremblay:** Madam Chair, may I repeat the question?

[English]

**The Chair:** It's difficult, because your time is up. We only have five minutes left for Mr. Cannings. Maybe you could communicate to the witness and she can respond to you in writing.

[Translation]

**Mr. Simon-Pierre Savard-Tremblay:** Could I ask that a written response be provided to the committee?

[English]

**The Chair:** If you're quick, give it a try. I don't want to take away from Mr. Cannings's time.

[Translation]

**Mr. Simon-Pierre Savard-Tremblay:** Very well.

Ms. Zalik, you are an environmental professor. If we want to deal with the climate crisis, more regulations will have to be enforced to protect the environment. In its current form, does CUSMA grant states the sovereignty to enforce the necessary environmental measures? Do you have any concerns about that?

[English]

**The Chair:** If you could respond to that question via the clerk, it would be helpful. Thank you very much.

I realize the clock says 5:30, but Mr. Cannings is last and he wants his five minutes.

Please go ahead.

**Mr. Richard Cannings (South Okanagan—West Kootenay, NDP):** Thank you. I'll try to be quick, then.

I'll stay with Professor Zalik.

You talked about the labour chapter in CUSMA and the rapid response provisions. You mentioned that you'd like to see them expanded to include agriculture and labour.

I'm wondering if you could expand on how you think the rapid response section has performed under CUSMA. Also, besides the agricultural aspect, how do you think it could be strengthened, and have we been enforcing it properly?

**Dr. Anna Zalik:** I just saw a series of presentations from Mexican specialists on the rapid response mechanism. In general, people feel it's been helpful in the broader process of labour reform. In Mexico, there's a general feeling, of course, that there's an unequal application of it to the United States and Canada. A similar mechanism should be in place that would not require federal approval for complaints about violations of labour rights. The ability to collectively organize and go directly to the rapid response mechanism, rather than requiring approval from Canadian or U.S. authorities, was one point that was raised. This would be significant. Expanding the priority sectors to agriculture would also allow, ideally, questions on migrant labour and the protection of migrant labour within Canada to be considered under CUSMA.

One of the other sectors that were raised was the energy sector. In relation to a question asked previously, it's notable that under the Mexican energy reform, one of the outcomes was the denationalization of the sector. This has led to a series of subcontractors for Pemex, some of which are U.S. and Canadian firms that are not easily governable. There needs to be a means of applying the rapid response mechanism to subcontractors in a range of different sectors. That's an area of concern.

Finally, in relation to an earlier question, the broader concern is that there are still state-to-state disputes regarding other concerns that have been raised. Trade is prioritized over social and environ-

mental concerns that affect all residents of the continent. Thus, there is a need to have enforceable legislation that is not subject to cancellation by preferential clauses in the agreement that put an emphasis on the concerns of private firms over the need to enforce, for instance, commitments under the Paris Agreement.

• (1730)

**The Chair:** You have one minute left.

**Mr. Richard Cannings:** I'll turn to Mr. Barry-Shaw and ask the same question, more or less, about the labour chapter and the rapid response effectiveness up to now.

What would you change to what Professor Zalik mentioned?

**Mr. Nikolas Barry-Shaw:** From what we've seen, the rapid response mechanism has been effective in a number of cases where independent unions have been in recognition fights, basically, with yellow unions, as they're called—unions that are corrupt and not really representative of workers. This is often the case in the automotive industry, where these kinds of recognition fights have been going on.

It's very important for the trade agreement to support labour rights rather than help drive them down. From what I've heard from unions doing cross-border work with Mexican auto workers, it's been a help and has been effective. I would be delighted to see it expanded to other sectors of the economy.

**The Chair:** Thank you to our witnesses for their patience today and very valuable information.

I move adjournment of the meeting.

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