HOUSE OF COMMONS
CANADA

TEN STEPS TO A BETTER TRADE POLICY

Report by the Standing Committee on International Trade

Leon Benoit, MP
Chair

APRIL 2007

39th PARLIAMENT, 1st SESSION

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THE STANDING COMMITTEE ON INTERNATIONAL TRADE

has the honour to present its

EIGHTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee studied Canada's trade policy and has agreed to report the following.

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TEN STEPS TO A BETTER TRADE POLICY

INTRODUCTION

Canada is one of the most trade-dependent nations in the industrialized world. Our economy, our jobs, our social services and our standard of living are all closely tied to our ability to participate in global markets for trade and investment. Two facts alone drive this point home: exports of goods and services account for close to 37% of the Canadian economy; and an estimated one in five jobs in Canada is linked to international trade.

Why is trade so important to Canada? The traditional answer to this question is that we lack the domestic market to be self-sufficient and maintain our current standard of living. This is the basis for our traditional focus on exports; the ability to sell into foreign markets allows us to produce more than we need at home. This added production creates jobs and wealth, and allows businesses to expand and realize efficiency gains through economies of scale.

This idea is widely understood in Canada but is, unfortunately, an outdated view of today's global business environment. The mercantilist view of the world has been discredited: exports and imports do not work at cross purposes, with the latter "taking away" jobs and wealth created by the former. Increasingly, exports and imports — as well as foreign direct investment (FDI) — are recognized as being inextricably linked to one another in the context of Canada's long term economic prosperity.

This is all the more true given the changing nature of international commerce. No longer do businesses simply manufacture and export from a single location. Increasingly, rather, they are participating in global supply chains — engaging in increasingly specialized production, where a final product may be assembled in one country using components from around the world. Exports, imports and direct investment are interconnected in this economic paradigm called "integrative trade."

The common thread running between trade and investment on the one hand, and economic prosperity on the other, is competitiveness. Indeed, the relationship between the two is self-reinforcing: trade and investment help make the Canadian economy more competitive and more productive. That, in turn, helps businesses to be successful on the world stage. International trade and investment policy must, therefore, be at the centre of any Canadian competitiveness strategy.

Given the importance of trade and investment, and participation in global supply chains, to creating wealth, employment and prosperity in Canada, it concerns us greatly to read acknowledged experts stating that Canada has a "trade policy that has effectively

[run] out of steam."[1] There is no shortage of statistical evidence to support this claim: Canada is losing market share as a source of, and destination for, foreign direct investment around the world; in spite of strong commodity prices, merchandise exports have grown by an average of only 2.6% per year since 2002; and the contribution of exports of goods and services to the Canadian economy is falling. This latter point concerns us the most. While strong domestic demand is keeping the Canadian economy afloat for now, it cannot do so forever.

It is clear to this Committee that Canada needs a reinvigorated trade policy. In fact, the term "trade policy" itself has become outmoded. What Canada needs is a clear and focused international business strategy — one that recognizes the importance of trade and investment to prosperity in Canada, including its relationship to productivity and domestic competitiveness.

For this reason, we began, in October 2006, to conduct hearings on Canada's trade and investment policy. Our goal was to identify the opportunities and challenges facing Canadian businesses abroad and to make recommendations to the Government of Canada towards creating a sound international business strategy — one designed to help Canada once again become a world leader in trade and investment.

To do so, urgent action is required. Canada is disappearing from the international stage, the very source of our high standard of living. This report offers a ten-step plan towards a better international business policy for Canada. We believe these steps will help restore Canada to its former position on the world economic stage and contribute to a more productive and prosperous society.

THE TEN STEPS

1. Increase Federal Resources Destined for Trade by a Full 50%

> It is that presence and the ability to have an ongoing conversation that creates the business. For that, we need more feet on the ground, and we particularly need more feet on the ground from our international trade people. I'm sure you could increase the trade commissioners by 50%. That would make an enormous difference to this picture, because of the numerous meetings they must try to orchestrate. They're just run off their feet, and we see this directly when we visit them. We organize events with them, and we get more people in the room. We participate in these things; they are the kind of resources that make those things actually happen.
>
> Stephen Poloz, Senior Vice-President and Chief Economist, Corporate Affairs, Export Development Canada

[1] http://www.irpp.org/po/archive/oct06/hart.pdf.

> The challenge we face, and indeed have faced for a number of years, is to take the necessary action and to commit the necessary resources to accomplish these agreed goals. Simply said, we need to just do it. It takes resources and it takes our collective will. The European Union, the United States, Australia, India, China, Singapore and many others are steps ahead of us.
>
> David Hutton,
> Director General, Canada-Arab Business Council

It has become obvious to Committee members that one of the key deficiencies of Canadian trade policy is that the federal government is not spending enough on its trade negotiating efforts and on its trade promotion at home and abroad. We must make our commercial presence known in the world, and inject considerably more dollars, people and effort into trade. Other priority areas of government activity, such as transfers to the provinces, the Canadian military, and foreign aid have all received considerable increases in federal expenditures in recent years. So, why not foreign trade and investment, which is a major generator of the wealth that allows Canada to finance spending in those other areas?

Canada needs to have more “feet on the ground” in countries with growth potential. As the second quote above indicates, the European Union, the United States, Australia, India, China and Singapore all seem to be more aggressive than Canada in this area. As well, the Committee was told that Spain decided to adopt an especially aggressive strategy towards Latin America, with a whole series of policies; political involvement directed out of the Prime Minister’s office; and considerable government support for business delegations, chambers of commerce and other initiatives.

We received evidence that our trade negotiators are being run off their feet and that our commissioners are doing a superb job but that they are constrained by a lack of resources. We were informed that it is vital to have more offices and people on the ground.

In spite of the recognized value of these resources, witnesses came to the Committee with a common refrain: where is Canada? As a foremost trading nation, we should have a strong presence in all high-growth markets of the world, yet, for some inexplicable reason, we do not.

There is nothing more important than trade to this country. What is really needed is a substantial boost in resources in markets where there is high commercial potential. However, as Dwain Lingenfelter (Chairman and Chief Executive Officer, Nexen Inc.; Vice-President, Government Relations, Canada-Arab Business Council) explained to the Committee, “that isn’t the way the Government of Canada has looked at this. They don’t look at it as an investment […] The budget has to increase and you have to reward success. I think that if an operation is growing in a region, then that budget should automatically be increased to reflect that. Why? Because the return on that investment is coming back to the Canadian taxpayers directly. And that’s measurable.” Mr. Lingenfelter gave the example of Yemen, in which Canada is the biggest investor of all of the G8 countries, but is the only one without an embassy. It is high time that we start looking at expenditures on international business development as an investment in prosperity.

It is also critical that Canadians, both government trade officials and businesses, exert patience in the emerging markets of the world because it takes time for a solid Canadian presence to be established. Our involvement in these countries should not be intermittent in nature.

The Committee also heard that the federal government does offer programs to help small- and medium-sized enterprises (SME) achieve a state of export readiness, and subsequently to assist them with their international business transactions as they attempt to take advantage of market opportunities around the world. These smaller businesses often do not have the means or the opportunities to exploit these new markets on their own. However, while we recognize the success of existing programs that directly support SME, we believe that the funding for these programs should be increased.

It was also brought to our attention that bilateral business groups are useful to Canadian trade commissioners and to small businesses in Canada, and that the federal government should increase their funding to them. We need to find ways to do more with these organizations and we need to boost federal support for business partnerships and outreach.

We are of the view that the federal government's spending on trade should be increased by a full 50%. As we have already mentioned, international trade is a vital contributor to the country's economy, and the lack of financial and human resources devoted to this activity is hampering Canada's efforts to remain globally competitive. Part of that increase should be used to open new embassies where warranted.

Recommendation 1:

The Government of Canada should increase its current expenditures on trade negotiation and promotion by a full 50%. This increased spending should be allocated to:

- **Canadian trade negotiators;**
- **trade commissioners;**
- **new diplomatic offices in countries and regions with significant commercial potential for Canada (China, India, the Gulf States and the Association of Southeast Asian Nations, to name a few);**

- **international business development programs, including a revamped Program for Export Market Development (PEMD);**

- **aggressive marketing and promotion of Canada and Canadian products abroad; and**

- **bilateral business associations.**

In designing its international business programs, care should be taken to ensure that these programs are customer driven. It is imperative that the government agencies, crown corporations and government departments that are active in building international business activity around the world, are reviewed periodically to make sure that their services actually address the needs of Canadian business.

Finally, Eric Siegel (President and Chief Executive Officer, International Trade, Export Development Canada) told Committee members that his organization, Export Development Canada (EDC), does not have the legislative authority to establish its own offices outside of this country. Rather, EDC representatives must share office space with our foreign diplomats who are not always ideally situated. He also noted that EDC is also restricted in who it can hire overseas. The Committee would like to see these and other restrictions reviewed.

Recommendation 2:

The federal government should immediately undertake a review of the existing legislative restrictions that restrain Export Development Canada from having greater commercial presence in emerging markets, and remove these restrictions where feasible.

2. Increase High-Level Government-to-Government Visits

We have to convince our press and our public that there is a cost to doing business, that when an MP or a minister or a government official travels to these countries, the return on that airfare is enormous and you are playing a critical role in business development.

David Hutton,
Director General, Canada-Arab Business Council

> [I]f in my company, being involved in international trade, I sat in Calgary and waited for people to come, we wouldn't do any business and I'd lose my job. And I should lose my job because I'm not doing the work that's required to be in international business development.
>
> I think the Committee needs to become like that. Regardless of the critics, part of your role is teaching the public, and we can help in that. But we have to be able, not only to defend what you're doing, but to celebrate the successes that members of Parliament and the ministers have, or the Prime Minister has when he goes and does these kinds of visits.
>
> Dwain Lingenfelter (Chairman and Chief Executive Officer, Nexen Inc.; Vice-President, Government Relations, Canada-Arab Business Council)

The need for more government commitment to trade and investment promotion does not end with the bureaucracy. While the question "Where is Canada?" largely relates to the shortage of trade commissioners and lack of sufficient diplomatic representation abroad, as described above, Ministers and other Members of Parliament need to do their share as well.

Dwain Lingenfelter, Chairman and Chief Executive Officer, Canada-Arab Business Council & Vice-President, Government Relations at Nexen Inc. pointed out that, in the Arab States, Canada has sent the message that we are not interested in building closer ties with that region. How has this happened? Because elected Members of Parliament, Ministers, Parliamentary Committees and senior government officials seldom visit the region. The Committee was told that when Canadian legislators do not travel to countries like Yemen, it sends a message that Canada is, at best, ignoring these potential markets or, at worst, insulting them.

Obviously this is not a deliberate message. Nevertheless, we heard that by not actively traveling abroad to cultivate stronger relations, Canadian Parliamentarians are signaling that Canada is not interested in building closer economic ties around the world. This is the exact opposite of the signal we should be sending.

Canadian businesses that are active in global markets are asking for our help. Parliamentarians may not participate in trade and investment directly, but we have an invaluable role to play as part of a coordinated international business policy. Specifically, trade and investment in many countries is built on international relationships. Several witnesses emphasized that these relationships are not limited to business-to-business interaction, but include government-to-government contact as well, whether at the official or the legislative level. When the Prime Minister, other Ministers, Parliamentary Committees, or even individual Members of Parliament visit other countries, it signals that Canada is serious about expanding its political, social and economic ties around the world. Inviting elected members from other countries to Canada is equally important.

Other countries have recognized the importance of government-to-government contact to improving trade and investment ties. Canadian business has suffered as a result. The Committee learned that Australia is a leader in terms of building government-to-government relationships. Visits to the UAE, for example, by Australian government ministers and Parliamentary Committees were a regular occurrence. Australia's trade with the UAE has profited enormously.

It is not just Australia that uses government-to-government contact as a trade and investment promotion tool. We heard that many other countries that compete directly with Canadian companies use a similar approach. However, Canada does not operate in this way and as a result, our companies are automatically at a disadvantage with respect to those from countries like the U.S., the UK, China and France.

While high-level government-to-government contact is important, we also heard that not all types of visits are equally useful; those that amount to little more than photo opportunities at contract signings are of no value when it comes to promoting business development; such contracts are years in the making. Where the Prime Minister, the Minister of International Trade, Parliamentary Committees and senior officials do have a valuable role to play is in the early stages of business development. Building relationships, opening doors to business and sending the message that we want closer political, economic and social ties — these actions make a difference.

If overseas visits by Canadian Parliamentarians and officials are so beneficial, why do they not happen more often? Witnesses were happy to provide us with the answer: to the detriment of our international business development and long-term economic competitiveness, we are overly sensitive to the notion that international travel could be perceived as a wasteful junket. Moreover, in a minority parliament, the political obstacles to international travel are all the more pronounced.

The Committee was also told, however, that these perceptions and political issues must be overcome. We need to consider not the perception of international visits at home, but how they are viewed from abroad — as a signal of friendship and of a willingness to develop our international relationships.

In fact, we heard that the House of Commons Standing Committee on International Trade itself needs to play a leadership role in trade promotion abroad. We agree wholeheartedly with this message.

Recommendation 3:

Because many countries view close government-to-government relationships as fundamental to building closer economic ties, the Government of Canada and Canadian Parliamentarians should ensure that there are frequent focused and well-planned visits to and from priority markets. The House of Commons Standing Committee on International Trade should be actively involved in these visits.

As a final note on this subject, we would like to note that this Committee intends to be proactive in initiating high-level contacts with other countries. We have agreement within the Committee for a fact-finding mission this spring that will take us to the European Union (EU), our second most important trade and investment market, and to two other regions identified as priority markets by the Department of Foreign Affairs and International Trade (DFAIT): the Gulf States and Southeast Asia. Our objectives are to support our businesses in the region; work towards reinvigorating government-to-government contacts; and to send the message that Canada is ready to do business around the world.

3. Wrap Up Existing FTA Negotiations

> If Canada cannot conclude an agreement with essentially a free port, there will be questions around whether Canada can close a deal with countries that do have much more substantial trade barriers […] we're sending a very negative signal in failing to conclude with Singapore after six years or seven years of negotiations.
>
> Yuen Pao Woo, President and Co-Chief Executive Officer, Asia Pacific Foundation of Canada

The cornerstone of any international business strategy must be to remove the barriers that stand in the way of increased trade and investment. Free Trade Agreements (FTAs) are the primary tools by which this is accomplished.

Currently, Canada has FTAs in place with five countries: the United States and Mexico through the North American Free Trade Agreement (NAFTA); and bilateral FTAs with Chile, Israel and Costa Rica. Canada is also in the midst of formal free trade negotiations with four other countries or regional groupings: Singapore; the European Free Trade Association (EFTA — Norway, Switzerland, Iceland and Liechtenstein); the Central American Four (CA-4 — Nicaragua, Guatemala, Honduras and El Salvador); and South Korea.

Canada's last successful free trade negotiation was in 2001. Many of its ongoing negotiations have dragged on for years or have effectively stalled. Negotiations with EFTA, for example, began in 1998 before reaching an impasse in 2000 on the issue of protection for the Canadian shipbuilding sector. Similarly, Canada-CA-4 negotiations began in 2001, but there has not been a formal round of negotiations since 2004. In that case, market access issues in areas like agriculture and textiles are responsible for the lack of progress.

Canada-Singapore talks also began in 2001, before stalling in 2003. In this instance, however, the delay is, in our view, justifiable. We heard that over the course of Canada-Singapore negotiations, the United States began, and concluded, its own free trade agreement with that country. Canada was prepared to use the Singapore-U.S. deal as a template for its own negotiations, but Singapore had granted concessions to the U.S. that it was unwilling to extend to Canada. For their part, Canadian negotiators were unwilling to accept an inferior deal that would put Canada at a long-term disadvantage relative to the U.S. in that market. We agree with Peter Clark (President, Grey, Clark, Shih and Associates Limited) and others who supported the stance that Canada should not accept an inferior deal.

For its part, talks with South Korea, which began in 2005, have continued uninterrupted. The most recent round of negotiations took place from 29 January to 1 February, 2007. An agreement with South Korea holds the most economic potential of any of Canada's current or prospective FTA discussions.

Although Canada has little to show for its negotiating efforts over the past six years, the Committee is encouraged by reports that recent progress has been made in all of these negotiations. The seventh round of Canada-Singapore negotiations, and the first since 2003, took place in February 2007. After a six year hiatus, negotiations with EFTA resumed in September 2006. No formal talks have taken place with the CA-4 since 2004, although the two sides have met informally several times within the past year in an attempt to resolve outstanding issues.

Nevertheless, we, as a country, need to do more to liberalize trade and investment opportunities for our businesses. Other industrialized countries — our major competitors in global markets — have made significantly more progress than Canada has. We heard that the United States, for example, has signed agreements with 15 countries. The EU and Australia have completed deals and are negotiating with countries around the world. Each new FTA signed by other countries automatically puts Canadian businesses at a disadvantage in those markets. We need to get in or risk being shut out.

Clearly, this Committee believes that Canada needs to be more aggressive in liberalizing trade and investment around the world. Recommendation 1 of this report calls for more negotiating resources for this very purpose.

We believe that the first step in a renewed emphasis on signing free trade agreements is to take care of unfinished business. There may have been legitimate reasons behind the delays, but the fact that talks with the CA-4 and Singapore are into their seventh year, and those with EFTA into their tenth year, sends the message that Canada cannot close a deal. We need to conclude these agreements and move on.

Recommendation 4:

With the goal of securing agreements that are in Canada's best interests, the Government of Canada should complete free trade negotiations with the European Free Trade Association, the Central America Four, Singapore, and South Korea as quickly as practical.

4. Sign New FTAs

> We only have three very small bilateral deals, while the rest of the world is out negotiating like crazy. The Americans, the Chinese, and the Europeans are extremely active right now, trying to expand their access to other markets […] It's about time Canada really got into the game.
>
> Glen Hodgson,
> Senior Vice-President and Chief Economist, Conference Board of Canada

Bringing to fruition long overdue trade agreements is only one element of a successful trade policy. Canada is in a difficult and deteriorating position globally. All of our major competitors in international markets are furiously negotiating free trade agreements. Each time a new agreement is signed, Canadian businesses effectively take a small step backward. Why? Because these trade agreements tilt the competitive balance in favour of our competitors. If a Canadian company faces a tariff in any given country of 10%, for example, while a competitor from the EU or the U.S. can sell into that market tariff-free, the Canadian enterprise will quickly see its business dry up. Canada will not be able to compete internationally if we do nothing to stem our eroding competitive balance.

The solution to this problem is simple: Canada must get in the game when it comes to signing new bilateral free trade agreements. In some cases, these agreements will open new markets for Canadian businesses. In other cases, they may simply prevent Canada from being shut out of certain markets. Either way, these agreements are badly needed.

With the exception of the ongoing negotiations discussed in the previous section, Canada is engaged in preliminary discussions on free trade with the Andean Community (Peru, Colombia, Ecuador and Bolivia) and the Dominican Republic. In our view, much more is needed. Kenneth Frankel (Board Member, International Trade Advisor, Canadian Council for the Americas) pointed out that, in November 2004, Brazil approached Canada about negotiating a free trade agreement. Nothing happened; "There are various interpretations [for] why this entreaty did not progress." In our view, these types of opportunities should be seriously considered in conjunction with Canada's overall trade interests.

One possible explanation for the lack of progress in seeking out new trade agreements is that Canada lacks the negotiating resources to pursue these deals. This is why we have recommended a large infusion of such resources as part of Recommendation 1.

Even so, countries much poorer than Canada have clearly not been limited by a lack of negotiating resources. The Committee learned from His Excellency Eugenio Ortega (Ambassador, Embassy of Chile) that Chile has signed eight free trade agreements since 2005, including deals with China and India. We find this remarkable, given that Chile is less than half as wealthy as Canada on a per capita basis.

This Committee believes that Canada needs to vigorously seek out new trade liberalization opportunities around the world. We recommend that Canada adopt a two-pronged strategy for doing so: signing “defensive” and “proactive” free trade agreements.

Our model is the EFTA. In our meeting with a delegation of parliamentarians from that group, we were struck by the parallels between Canada and EFTA. Both are prosperous economies situated next door to economic giants that are, at the same time, their largest trading partner and their principal competitor abroad. In addition, like Canada with the U.S., EFTA uses its free trade agreement with the EU and proximity to that market to attract FDI from around the world.

EFTA seeks out free trade agreements on two tracks. The first is to ensure that its companies are not effectively shut out of any markets because the EU enjoys preferential access. As a result, EFTA has been quick to pursue trade deals with countries where the EU has already done so, or is in the negotiation process. These deals are what we call “defensive” trade agreements.

This Committee believes that Canada should adopt a similar approach with regard to its major international competitors. As mentioned earlier, we were told that the United States has signed trade agreements with 15 countries. With the exceptions of Mexico, Chile and Israel, that essentially means that U.S. producers have an automatic competitive advantage over Canadian businesses in 11 countries. For Canadian businesses to succeed, they must at least be given a chance to compete on a level playing field.

We heard from Liam McCreery (Past-President, Canadian Agri-Food Trade Alliance) that when the U.S. signed a free trade agreement with Morocco, it gained preferential treatment for its grain producers. On the surface, Morocco may seem like a relatively minor market, but it is the gateway for all of Africa for grain.

Moreover, Canada has historically tried to parlay its access to the U.S. market via NAFTA to attract FDI to this country. It will have a difficult time doing so if countries can more easily access the U.S. market directly.

In our view, we need to close the gap between Canada and the U.S., as well as the gap between Canada and our other major global competitors. Canadian producers deserve to at least have a chance to compete.

Recommendation 5:

Recognizing that Canadian businesses have been shut out of some markets because competing countries have preferential trade agreements in place and Canada does not, the Government of Canada should determine in which countries Canadian businesses are operating at a disadvantage with respect to their major competitors, and then negotiate "defensive" free trade agreements that prevent Canada from being shut out of those markets.

The second step in implementing an EFTA-style trade liberalization strategy is to pursue "proactive" interests. EFTA tries to stay one step ahead of the EU by negotiating trade deals with countries where the EU has not yet done so. This "first mover advantage" gives businesses from EFTA countries a step up, even if only temporarily, on their EU competitors. This gives them a head start in forging partnerships and developing relationships in other markets.

We believe that Canada should also seek out "proactive" trade liberalization agreements based on its own priorities. Committee members have a range of views on where trade agreements would be beneficial — the Gulf Cooperation Council (GCC) and the ASEAN countries are but two such examples.

However, our study did not include an exhaustive analysis of where free trade agreements would be most beneficial. We note that in its *Report on Plans and Priorities 2006-07*, the Department of Foreign Affairs and International Trade (DFAIT) lists the following "core group of priority markets": the United States, Mexico, China, India, Brazil, Russia, Japan, South Korea, the Association of Southeast Asian Nations (ASEAN), the Gulf Cooperation Council and the European Union.

When it comes to choosing from within this list, we agree with Mr. Claude Wild (Minister-Counsellor and Deputy Head of Mission, Embassy of Switzerland) who stated that, in Switzerland, government is at the service of industry and does not impose a bureaucratic plan on business. In our opinion, Canada should follow a similar philosophy. DFAIT should consult with Canadian businesses, unions and civil society organizations active abroad to determine where free trade agreements would be valuable and feasible, and then take the steps needed to reach an agreement. Steps should be taken to ensure that the organizations with which the government consults are being socially responsible and are therefore representing Canada well.

Recommendation 6:

The Government of Canada should continue to consult with Canadian businesses, unions and civil society organizations active overseas, to determine where Canada's "proactive" trade interests lie, that is, where Canada would most benefit from improving two-way market access. The Government of Canada should then aggressively pursue trade deals with countries considering those assessments. At the same time, since the reputation of Canada as a whole is affected by the activities of Canadian companies abroad, the Government of Canada should also ensure that the businesses and unions with which it consults (i.e., those active overseas) are acting in a socially responsible manner.

Two countries stand out as being worthy of consideration as a special case. Except for witnesses representing specific regions of the world, nearly everyone who appeared before the Committee spoke of the importance of China and the need for Canada to have a China-specific strategy. India is also a crucial, high-growth economic partner for Canada.

We believe that having China and India strategies that involve close engagement with, and direct investment in, these two countries is critical to the long run survival of Canadian businesses. The significance of these markets cannot be overstated. Put simply, if Canadians do not invest in, or import from China and India, others will, putting Canadian companies at an enormous disadvantage relative to their international competitors. Although China is sometimes blamed for the erosion of the manufacturing base in Canada, the reality is that building closer economic ties with China will gives Canadian business a better chance to compete with their international counterparts. Closer involvement with India, for its part, could open up additional market opportunities for Canada's service industries as well as accelerating Canadian investment in that country.

The Committee is pleased to note that on 12 March 2007, the federal government announced that, once ongoing negotiations on a foreign investment protection and promotion agreement between Canada and India are completed, it will pursue a free trade agreement with India. We believe that this announcement is a step in the right direction and we call on the Government of Canada to adopt a similar position with respect to China.

Recommendation 7:

The federal government should develop and start to implement comprehensive strategies on Canada's commercial relations with China and India, including the conclusion of foreign investment protection and promotion agreements prior to the negotiation of a bilateral free trade agreement with each country. These strategies should also include consideration for human rights; more aggressive promotion of Canada and Canadian products; and greater involvement of the Chinese and Indian diasporas in Canada.

Finally, the Committee heard that one of the reasons it may take Canada so long to negotiate free trade agreements is that we tend to seek large-scale, comprehensive deals. We were told that Mexico, for example, negotiates deals much more quickly than Canada because its trade agreements are less comprehensive. As Peter Clark stated, trade deals are usually about exceptions; countries agree on free trade in principle, but negotiate on the basis of reservations they have in certain sectors or on certain issues.

Mexico, on the other hand, emphasizes common ground in its negotiations. It quickly reaches consensus on the 90% or 95% of tariff lines that are not controversial and then concludes the deal. As economic ties grow and trust is built over time, the remaining 5% or 10% of unfinished negotiations can be dealt with down the road through the work of joint committees.

In other words, trade agreements do not have to be perfect. Indeed, agreements that liberalize trade only in certain sectors are gaining popularity around the world. These types of agreements go by a variety of names like Trade and Investment Cooperation Agreements or Economic Cooperation Agreements. We believe that if Canada cannot complete a free trade agreement which, according to the WTO, requires liberalization of “substantially all the trade” between participating countries, then it should consider seeking out less comprehensive agreements as an interim step towards a more complete trade deal.

We believe that a trade agreement that opens doors for 90% of Canadian businesses immediately is almost always better than holding out for a perfect deal that may take years to complete. The only time this may not be true is in a case such as the Canada-Singapore negotiations mentioned earlier. Certainly we believe the feasibility of adopting the Mexican model in Canada should be studied in detail.

Recommendation 8:

In future free trade negotiations, the Government of Canada should consider studying and possibly adopting the Mexican negotiating model, in which agreements are signed without necessarily resolving all sensitive issues and where Canadian interests are protected through the exclusion of certain sectors from negotiations. If Canada were to use such a negotiating model, then as the relationship grows, these concerns could be addressed in subsequent contact between the two parties. The Mexican model should not be employed in cases where Canadian businesses would be put at a disadvantage relative to their major competitors by a free trade deal.

5. Pursue FIPAs and Other Bilateral Agreements

> [T]rade arrangements are more than just free trade agreements. Rather, they include investment protection agreements, air agreements, tax treaties and other means to help Canadian business and get them involved in global supply chains, such as regulatory cooperation and science and technology agreements. The list is fairly broad.
>
> David Plunkett (Director General, Bilateral and Regional Trade Policy, Department of Foreign Affairs and International Trade (International Trade))

A comprehensive, well-articulated international business policy is about more than just free trade agreements. There are a variety of policy instruments at Canada's disposal that can help improve economic linkages around the world and integrate Canada into global supply chains. These include foreign investment protection and promotion agreements (FIPAs), air service agreements, tax treaties, science and technology agreements and agreements on regulatory cooperation. For an effective international business policy, Canada needs to make use of the entire arsenal of international agreements at its disposal.

Indeed, the Government of Canada has been active in this regard. Since 2004, it has signed double taxation agreements with 9 countries; five air transportation agreements, including one with China; and one FIPA — with Peru. In a significant step, it has also signed science and technology agreements with China and India.

Nevertheless, we heard from witnesses that more needs to be done. In particular, witnesses focused on three specific areas: foreign investment protection, air services and regulatory cooperation.

Of these, FIPAs are perhaps the most important from an international business development perspective. FIPAs help protect Canadian investors in developing countries by setting out legally binding rights and obligations on the parties involved. These agreements mitigate some of the risk that businesses could face when investing in emerging markets.

FIPAs are of particular importance in global supply chains and integrative trade. These agreements encourage investment, allowing businesses to reposition elements of their production activity around the world in as cost-effective a manner as possible. These investments help build trade linkages, laying the groundwork for further economic cooperation down the road.

Canada has FIPAs in place with 23 countries and is currently negotiating with three others — China, India and Jordan. We heard from several witnesses that FIPAs are generally much easier to negotiate than free trade agreements. These witnesses called on

Canada to continue to expand its network of investment protection agreements around the world. In particular, we heard that more such agreements are needed in Latin America and in Asia. Colombia, Indonesia and Vietnam were three countries specifically mentioned.

Recommendation 9:

The Government of Canada should immediately open negotiations on Foreign Investment Protection and Promotion Agreements (FIPAs) with Indonesia, Vietnam and Colombia. It should also negotiate FIPAs with other countries, after consulting with businesses to determine where investment protection and promotion agreements would be beneficial.

The Committee is pleased that FIPA negotiations are underway with India and China. In China especially, Canadian businesses have expressed concerns about intellectual property theft and the wide scale manufacture of counterfeit goods. A FIPA will go a long way towards addressing those concerns and will encourage Canadian companies to invest in China.

The Committee also heard that air service agreements can play an important role in building business ties. Establishing direct flights between Canada and key markets lowers the cost, both in terms of dollars and in time, of doing business. It also acts as a signal, sending the message that Canada is serious about establishing international linkages on its own and not relying on transit through the United States and the EU to reach other countries. The Committee heard that air service agreements would be beneficial in a number of key markets, especially major transportation hubs like Singapore.

Recommendation 10:

The Government of Canada should expand its network of air services agreements around the world, including with Singapore.

Agreements on regulatory cooperation can also play an important role in improving trade ties with certain countries. While a proper regulatory environment is important, all too often, regulations and safeguards are used by some countries as non-tariff barriers to imports. We heard that these barriers are a major impediment to increasing our trade with Europe, particularly for many Canadian agri-food producers. In fact, the Committee was told that exporting to Europe can be so difficult that many Canadian businesses establish European affiliates in order to penetrate that market. Glen Hodgson (Senior Vice President and Chief Economist, Conference Board of Canada) informed the Committee that sales by Canadian affiliates in Britain are eight times higher than Canadian exports to that country.

The Committee believes that treaties that lower these regulatory barriers, by working towards common recognition of standards or achieving some measure of regulatory co-operation or harmonization, would lower the cost of business and reduce barriers to trade, especially for Canadian small- and medium-sized enterprises (SMEs). We are not suggesting that Canada adopt lower regulatory standards. In fact, we are not in a position to comment on whether Canadian standards are higher or lower than those of other countries. In the case of affluent, industrialized societies like those within the EU, we believe that Canada should be able to reach some agreement that reduces implicit barriers to trade without compromising safety.

Indeed, we note that Canada and the EU have tried to make some progress in this area: regulatory cooperation was one component of recent negotiations towards a Trade and Investment Enhancement Agreement (TIEA) between the two parties. Unfortunately, negotiations on the TIEA were suspended in 2006 because some issues required clarification that would come when the current round of World Trade Organization (WTO) talks was concluded.

However, a new multilateral trade agreement is not on the horizon. We believe that Canada should not sit on the progress it has made to date on regulatory cooperation with the EU, while it waits for negotiations to resume at the WTO.

Recommendation 11:

Building on the progress made during its Trade and Investment Enhancement Agreement (TIEA) negotiations with the European Union (EU), the Government of Canada should negotiate a regulatory cooperation agreement with the EU that will remove non-tariff barriers facing Canadian businesses in that market.

6. Take a Leadership Position at the WTO

> Like Australia, we operate on a number of tracks, but again, like Australia, we have traditionally given top priority to multilateral trade rules and liberalization under GATT and now, the World Trade Organization
>
> Kate Lackey, High Commissioner,
> New Zealand High Commission in Canada

> [T]he WTO remains the most promising framework to fully liberalize world trade in a way that is fair.
>
> Claude Wild,
> (Minister-Counsellor & Deputy Head of Mission, Embassy of Switzerland),

When it comes to international trade, there is nothing more important than having the right trade rules at the multilateral level. The Committee was told by a number of witnesses that the WTO was the most promising framework to fully liberalize world trade.

In order to get the rules that we want in place, we need to have an ambitious outcome to the WTO Doha Round of negotiations. The good news is that the suspension on technical discussions has now been lifted and these discussions are now underway. However, the task at hand will not be easy. For a successful round to be realized, there will have to be concessions by all of the major players in all aspects of the negotiations.

The key obstacles to successfully completing the Doha Round continue to lie in agriculture, the most distorted sector of world trade. Three challenges stand out. The first is how to get domestic support, which makes up over 30% of European farm income and 18% of U.S. farm income, down. Domestic farm subsidies cause overproduction that, in turn, depresses commodity values globally.

Producers in Canada and other countries, especially developing countries, cannot compete against these subsidized farm products. Countries should be able to produce and sell on the international market based strictly on their abilities to capture foreign markets instead of having production decisions influenced by subsidies and other trade-distorting practices. Achieving progress at the WTO is the only way to resolve this issue, since bilateral agreements do not address domestic support. The Canadian government's position is to obtain the maximum possible reduction or elimination of production and trade-distorting domestic support.

The second challenge is how to improve market access for agricultural exports. The Committee heard that agricultural tariffs are three times higher than those on non-agricultural goods, and tariffs tend to increase as you move from raw products to value-added products (this is known as tariff escalation). There is an urgent need for deep cuts in tariffs and a resolution to the tariff escalation problem.

The third challenge is what to do about "sensitive sectors" in agriculture. Many countries have sensitive agricultural sectors that they wish to protect, and Canada is no exception. In our case, these products (such as dairy, eggs, poultry) are governed by a supply management system.

We believe that Canada should play a leadership role at the WTO in ensuring that all countries lower their trade-distorting tariffs and subsidies in agriculture and in other sectors. Canada needs to become an aggressive and influential player so that it can help successfully complete this long-running Doha Round.

Recommendation 12:

Recognizing the benefit from the expanded access to global markets that a successful Doha Round could secure, the Government of Canada should take a leadership role in ensuring the completion of a broad and ambitious outcome to the current World Trade Organisation negotiations.

7. Increase North American Competitiveness for Global Success

> Our view is that our foreign policy really needs to proceed along two main tracks. Track number one is, obviously, with the United States, our most important relationship by far, something we have to think about every day, but we're not recommending or advising a big bang solution in terms of our relationship with the United States. It's more a matter of practical, day-to-day, rules-based engagement with the United States, seeing that they're our greatest friends and allies, but also looking after our own interests in that relationship.
>
> Glen Hodgson,
> Senior Vice-President and Chief Economist, Conference Board of Canada

> Increasingly what we need to do in North America is develop a North American strategy when it comes to addressing competition that comes from China and other countries in Asia.
>
> Carol Osmond,
> Senior Policy Advisor, Canadian Association of Importers and Exporters

By now, Canadians are aware of the pre-eminent importance of our trade relationship with the United States. Every day, $1.9 billion in goods, 37,000 trucks and 300,000 individuals cross the border. The bilateral trade relationship is the largest in the world. It is thus a huge motor for our growth and prosperity; our exports to that market account for a full 30% of our GDP.

There are two main reasons for focusing on the U.S. and on North America as a whole. First, it is important for Canada to ensure that it can meet the intense competition from the Asia Pacific region facing its exports to the U.S. Increasingly, emerging countries such as China, are beating Canada as they compete for success in the world's largest and most diversified market. We must do something about this before the cost to our economy is too great.

Second, maximizing North American competitiveness can help develop the more efficient continental supply chains and platforms that allow us to better take on the global competition that exists in third markets.

For both of these reasons, it is absolutely vital to remove barriers to the movement of goods and services on the continent. Regulatory impediments to cross-border flows of goods and services, which Glen Hodgson told the Committee served as "a very insidious and clever way of keeping goods out of markets", must be removed, and delays at the land border between Canada and the U.S. minimized.

On the question of regulation, the Committee heard that there are often small, rather inconsequential differences in regulatory standards and processes between the two countries on a particular product or group of products. These differences can and should be eliminated to enhance cross-border trade. Of course, where the need for separate regulations is warranted, no adjustment to the Canadian regulatory system would be necessary.

Also crucial to Canada-U.S. trade and investment, and to incoming investments from non-U.S. countries, is having a border that operates efficiently. Addressing border issues is critical to the competitiveness of Canadian firms. The Committee was informed that significantly more investment is required in hard border infrastructure, in the alignment of security systems between the two countries, and in raising the “intelligence” of the border.

Regrettably, however, the Committee was also told by Carol Osmond (Senior Policy Advisor, Canadian Association of Importers and Exporters) that the border is becoming thicker instead of thinner, despite best efforts to streamline cross-border movements. Initiatives such as the Western Hemisphere Travel Initiative and the introduction by the U.S. Department of Agriculture’s Animal and Plant Health Inspection Service (APHIS) of an import fee, are making things worse. The bottom line is that security continues to be a major preoccupation in the U.S., and these concerns must be dealt with.

Much of the work that is now going on to remove regulatory and border impediments to North American commerce is being carried out under the Security and Prosperity Partnership (SPP), an initiative launched by the three NAFTA member countries in 2005 to improve regulatory cooperation (i.e., remove regulatory barriers), sectoral collaboration and trade facilitation, as well as to fix border problems.

The Committee is convinced that the SPP represents a vital initiative in the quest for greater North American competitiveness.

Recommendation 13:

Canada should continuously push forward the agenda of the Security and Prosperity Partnership, thereby aggressively working towards the removal of as many obstacles to a seamless movement of goods and services across North America as possible, with greater public oversight and transparency.

Ben Tomlin (Fellow, C.D. Howe Institute) suggested that we need to begin discussions with the U.S. on developing a common external tariff system. Currently, we have a complicated and costly rules-of-origin process that applies in those instances when we import intermediate inputs from outside of the NAFTA economic space to create a final product to be shipped to the U.S. If there was a common external tariff system, rules of origin would be a thing of the past and trade would be considerably facilitated.

Finally, several witnesses raised the point that the lack of effective intellectual property enforcement in Canada, designed to block counterfeit and pirated products coming into Canada (primarily from China), and then being transshipped into the U.S., is proving to be a significant irritant in Canada-U.S. trade. Indeed, Canada has been included on the U.S. Trade Representative's 301 Watch List of countries with somewhat inadequate and ineffective intellectual property rights protection for the past several years, and something must be done to rectify the situation.

Recommendation 14:

The federal government should undertake effective intellectual property enforcement to keep counterfeit and pirated products from entering Canada and from being transhipped through Canada to our trading partners.

8. Improve Domestic Policy to Help Canadian Companies Compete Globally

[T]he first thing we need to do is have sound domestic economic fundamentals and make sure that our businesses are operating in the healthiest economic environment possible. That, of course, involves a whole range of domestic economic policies — fiscal, regulatory, labour market, infrastructure…

Terry Collins-Williams, Director General, Multilateral Trade Policy,
Department of Foreign Affairs and International Trade (International Trade)

The competitiveness of the domestic economy is a determining factor in the economic success of the country and this is what we must make clear to our domestic economic stakeholders who promote the protectionist lobby. We must make them understand that it is in the country's best interest to become more open to imports, because it encourages competition and pushes our economic sectors to perform better. In this regard, the Swiss government understands that exports and foreign investments are not the only factors in the growth of the economy. Imports and foreign investments in our country are equally important.

Claude Wild,
Minister-Counsellor & Deputy Head of Mission, Embassy of Switzerland

We're still stuck in a world of mercantilism, where we largely see exports as good and imports as bad, and we want a little bit of investment, but we only want it on certain terms. That doesn't work any more. The world has already moved beyond Canada. We've become a laggard rather than a leader in international trade. I think it's time for us to move to the front of the pack.

Glen Hodgson,
Senior Vice-President and Chief Economist, Conference Board of Canada

In this era of globalization, it has become clear that a country's domestic economic policy and its overseas trade policy are inextricably connected. In today's world of international commerce, it is of maximum importance to "get one's own house in order" so as to help companies compete better internationally.

What does this mean in practical terms? Well, for one thing it means that Canada needs to have the necessary physical infrastructure at its land border with the United States to lower border delays and adequate maritime ports to move goods efficiently in and out of Canada. On the question of ports, the Committee was informed by Carol Osmond that there was a need for a "comprehensive and integrated policy that looks at both the west coast and the east coast and how they work together." Rail capacity and the ability to move goods by rail are also important. Witnesses told us that the federal government's Pacific Gateway project is proving to be very important in dealing with infrastructure concerns, but that more investment in infrastructure would be desirable.

In this new period of strong global competition, we also need to provide companies and employees with the ability to upgrade their products and processes. Not all businesses adjust well to this competition or benefit from it. Instead of protecting these companies, however, we should help them adjust to the new competition by investing in, or making it easier for them to invest in, new technologies and innovation.

Even though we need to develop highly innovative specialized products for the world market, according to Gilles Rhéaume (Vice-President, Policy, Business and Society, Conference Board of Canada), Canada does not invest as much in new technologies as do other countries. Nor are we as good as others in commercializing new technologies.

Human capital development is just as important. Skills upgrading and retraining are critical to ensuring that workers remain productive and employable. In cases where a business cannot compete, we need to ensure that its employees are quickly able to find work elsewhere.

Third, the Committee heard that Canada requires a tax policy that makes it easy to invest in new technology (innovation); currently, this country has the world's eighth highest level of taxes on this type of investment. Taxes on capital discourage businesses from investing in capital expansion. As well, Canada's corporate income tax rates should be reduced to be competitive with other countries. Witnesses told the Committee that Canadian companies are at a disadvantage relative to their competitors in countries like France, the United Kingdom and Japan where corporate tax rates are lower.

The Committee acknowledges the importance of a competitive tax system for Canadian businesses. We also note that many of the services financed by taxes levied in Canada, such as our universal health insurance program, also improve domestic competitiveness by lowering the costs of doing business in this country. Employers in Canada do not need to pay into private health insurance programs as they would in other countries. Any adjustments to the tax system should take these benefits into account.

We also heard that the federal tax regime should also not impose a punitively high marginal tax rate on the working poor so that there can be a better transition from social support to paid employment.

Competitiveness would also be greatly served if our “balkanized” internal, domestic market was operating with fewer regulatory obstacles put up by the provinces, if the regulatory duplication and overlap that exists between federal government departments was eliminated, and if there was less overlap between federal and provincial regulation.

Recommendation 15:

The Government of Canada should modernize and strengthen its infrastructure, tax, regulatory, human resources, innovation, and other domestic policies to ensure that Canadian companies are as well positioned as they possibly can be to compete in the global economy.

Recommendation 16:

The Government of Canada should take steps to ensure that federal tax rates on Canadian businesses are competitive with those of other leading industrialized nations. The setting of these tax rates should take into account the substantial competitive advantages of the Canadian health care system and other social programs.

Recommendation 17:

The federal government should take a leadership role and work in collaboration with provincial and territorial governments to establish a barrier-free internal market by the end of 2008.

Finally, a crucial point to make is that maximizing competitiveness means dropping the mercantilist notion that “exports are good and imports are bad”. The Committee heard from Carol Osmond that the import content used to make Canadian exports now averages around 35% and that, in many manufacturing industries, that particular ratio exceeds 50%. Given the present “integrative trade” environment, we need to get better access to lower cost inputs to our exports. In other words, opening the economy to imports helps exports, and thus is critical to the operation of our domestic economy.

From a strictly economic perspective, it even makes sense to liberalize unilaterally whenever possible to improve competitiveness. Becoming more open to imports and foreign investment encourages competition at a time when globalization is making it more and more difficult to remain competitive.

Recommendation 18:

Given the increasing importance of lower-cost imports in the Canadian production of goods that are subsequently exported, the Government of Canada should study the feasibility and the consequences of unilaterally eliminating its remaining industrial tariffs.

It would also be wise to give Export Development Canada powers similar to those enjoyed by the U.S. Export-Import Bank to finance, on competitive terms, imports into Canada. As was mentioned above, many of these imports are used as inputs in the production of eventual exports.

Recommendation 19:

The federal government, as part of its next legislative review of Export Development Canada, should consider providing that agency with the authority to also finance imports that are critical to Canadian exports.

Finally, Glen Hodgson told the Committee that Canada's trade remedy (i.e., countervail, anti-dumping, safeguards) system "was built for the traditional view that imports are unfairly competing against domestic goods. We still need to examine whether competition is fair or not, but we have to do it with a different mindset — not assume that imported steel from China is a bad thing. Maybe for some manufacturers, it's critical; it's the only way they're going to be in the game."

Recommendation 20:

The Government of Canada should immediately review its trade remedy system to ensure that critically valued imports, needed as inputs by companies who subsequently export products out of the country, are not unnecessarily blocked.

9. Take Steps to Increase Foreign Direct Investment Flows and Services Trade

> We have to focus a lot more energy, not just on attracting investment to Canada, but on actually facilitating investment outward by our companies because there is this significant multiplier effect […] One way to actually generate wealth in Canada is to encourage our business community to use investment as a way to deepen their penetration of other markets, to make themselves more efficient, to reach other consumers, to make sales from foreign affiliates.
>
> Glen Hodgson,
> Senior Vice-President and Chief Economist, Conference Board of Canada

> Now I am going to link that to trade in services, because our share of trade that is services is actually in decline while the rest of the world is seeing services grow. There's a huge irony there. Services are 70% of our domestic economy. Part of that is because resources are so important, but we believe part of it is because we haven't really focused on services in a strategic way […] We have too much protection, and if you protect too much at home, your firms are not positioned to go out into the world and be able to compete internationally.
>
> Gilles Rheaume, Vice-President,
> Policy, Business and Society, Conference Board of Canada

Generating foreign direct investment inflows and outflows should be a Canadian policy priority. Throughout the world, international investment is growing at close to double the growth rate of exports and more than double that of GDP. Unfortunately, as Gilles Rheaume informed the Committee, Canada's relative performance with respect to both inflows and outflows has been slipping.

According to the Conference Board of Canada's recent report on Canadian competitiveness in the global economy, "the future winners in the world economy will be those who successfully play the foreign investment game — both attracting FDI and sending it outward. Canada therefore needs a clear strategy for both inward and outward FDI."[2]

Investment from abroad not only creates valuable jobs and economic growth in Canada, but also brings new technologies, innovation, and research and development activities to the country — ultimately paving the way for productivity gains. Unfortunately, the Conference Board report suggests that Canada has lost ground in competing for investment inflows and that it needs to re-establish itself as an attractive destination for new investment. To a large extent, this country's international competitiveness is being undermined by lagging productivity and obstacles that are a feature of the existing business climate, many of which have already been mentioned in the preceding section of this report.

In terms of strategy, the Conference Board calls on Canada to specialize in certain niches within global supply chains, such as advanced technologies, high value-added business services and emerging technologies, and attempt to attract foreign investment in these areas. The Board also suggests that Canada should do a better job of promoting its investment strengths to the world, and ensure that the Canada-U.S. border is as seamless as possible so as not to deter potential foreign investors who wish to serve the U.S. markets through investments here.

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2 Conference Board of Canada, *Mission Possible: Stellar Canadian Performance in the Global Economy*, The Canada Project Final Report, Volume 1, 2007, p. 81.

Facilitating and protecting outward Canadian FDI is also vital. By investing outside of the country, Canadian companies can gain access to global value chains and reach more foreign customers thereby enhancing their global competitiveness and profitability. Indeed, sales by Canadian foreign affiliates are rivalling Canadian goods exports in magnitude. Generating more outflows of FDI also leads to more trade, as increasingly trade is following investment. According to EDC analysis, two dollars of future trade is created for every dollar invested, with this trade result rising to six dollars if the investment occurs in very low-income countries.

One of the key ways to generate additional FDI outflows is to enter into bilateral investment protection and promotion agreements, or FIPAs. These have been examined in Section 5 of the report. The Committee heard that another tool at the government's disposal is to have Export Development Canada be more aggressive in supporting the efforts of Canadian business to invest abroad.

Turning to services trade, the above-mentioned Conference Board report bemoans the poor performance of Canada's services exports, which at 12.8% of total exports, is well below the OECD average of 22% and that of the U.S. (28%). It suggests that this country should take greater advantage of its potential as a services exporter and also broaden the range of services that we are competitive in.

The report calls on Canada to adopt a three-pronged strategy to enhance services trade:

- Improve the structural and regulatory environment in Canada for services activity;
- promote exports and investment abroad of our services providers; and
- achieve greater market access through the successful completion of the General Agreement on Trade in Services (GATS) negotiations within the WTO Doha Round.

Recommendation 21:

The federal government should immediately develop and implement clear and comprehensive strategies to (a) generate more foreign direct investment inflows and outflows and (b) strengthen international trade and investment in services.

10. Put In Place an Integrated Trade Policy

> The next step, then, is […] looking at all the instruments of government, things like the Canadian Commercial Corporation, EDC and Investment Canada, which has been drawn inside International Trade Canada; and giving the right mandates to some organizations.
>
> Glen Hodgson,
> Senior Vice-President and Chief Economist, Conference Board of Canada

> We should be under no illusion that anything less than a unified and aggressive effort will yield the desired result.
>
> Kenneth Frankel,
> Board Member, International Trade Advisor, Canadian Council for the Americas

The first section of this report recommended an increase of 50% in Canada's trade and trade promotion related budget. We called for a massive injection of resources that reflects the importance of international trade and investment to the long-term wealth and prosperity of Canadians.

As much as we believe a large cash infusion is needed, for that money to be spent effectively, the machinery of government that implements (and influences) Canada's international business policy needs to run smoothly.

Creating, maintaining and supporting international business policy, both at home and abroad, is the responsibility of the Government of Canada and its various departments and agencies. To be effective at this task, the machinery of government that underpins this effort must work smoothly, efficiently and in a cohesive and coordinated manner. However, even a cursory glance at the federal departments and agencies that have a stake in international trade, trade promotion and trade development produces a lengthy list:

- The Department of Foreign Affairs and International Trade (DFAIT),
- The Canadian International Development Agency (CIDA),
- The Department of Finance,
- Industry Canada,
- The Canadian International Trade Tribunal (CITT),
- Export Development Canada (EDC),

- The Canadian Commercial Corporation (CCC),
- The Canada Border Services Agency (CBSA),
- Statistics Canada,
- Environment Canada,
- Transport Canada,
- Agriculture and Agri-Food Canada,
- Natural Resources Canada.

Over the course of our hearings, we learned that these departments and agencies sometimes operate at cross-purposes. One of the issues witnesses raised is that trade is sometimes used as a policy tool in diplomatic affairs. Jayson Myers (Senior Vice-President and Chief Economist, Canadian Manufacturers and Exporters) told of an instance where Canada decided to impose export restrictions on Belarus as part of its foreign policy toward that country. This move, however, had a devastating impact on a Canadian company selling seeds and agricultural equipment into that country. Although innocent, it was Canadian exporters who ultimately suffered.

Anecdotal evidence aside, it became apparent to the Committee that it would be a considerable challenge to coordinate the activities of such a large number of departments and agencies in a way that Canada could develop and implement a coherent and focused international business policy. An even greater challenge would be to ensure that these departments and agencies work together to send a unified message abroad.

This Committee has a number of questions as to how the machinery of government currently operates as it relates to the development and implementation of international business policy. We are especially interested in knowing if the organization of trade- and investment-related activities within the federal bureaucracy can be improved.

As such, in the Spring of 2007, the Committee intends to begin a study on this subject. Our objective will be to evaluate how the machinery of government functions, as it pertains to federal trade and investment policy and promotion, and whether or not it could be restructured to operate more logically, efficiently and effectively.

A FINAL NOTE

The Committee wishes to stress that the basic purpose of a better trade policy is to improve the lives of Canadians. As we continue to expand and enhance our trade policy, it is important that a balance of the economic, environmental and social components of our standard of living be incorporated in that policy in order to ensure sustainable prosperity.

Recommendation 22:

All of the above recommendations should be implemented taking into consideration the importance of democratic debate on issues contained in the report; the quality of life of all Canadian families and closing the prosperity gap; and the importance of working to raise social, labour and environmental standards, both in Canada and internationally with our trading partners.

LIST OF RECOMMENDATIONS

Recommendation 1:

The Government of Canada should increase its current expenditures on trade negotiation and promotion by a full 50%. This increased spending should be allocated to:

- **Canadian trade negotiators;**
- **trade commissioners;**
- **new diplomatic offices in countries and regions with significant commercial potential for Canada (China, India, the Gulf States and the Association of Southeast Asian Nations, to name a few);**
- **international business development programs, including a revamped Program for Export Market Development (PEMD);**
- **aggressive marketing and promotion of Canada and Canadian products abroad; and**
- **bilateral business associations.**

Recommendation 2:

The federal government should immediately undertake a review of the existing legislative restrictions that restrain Export Development Canada from having greater commercial presence in emerging markets, and remove these restrictions where feasible.

Recommendation 3:

Because many countries view close government-to-government relationships as fundamental to building closer economic ties, the Government of Canada and Canadian Parliamentarians should ensure that there are frequent focused and well-planned visits to and from priority markets. The House of Commons Standing Committee on International Trade should be actively involved in these visits.

Recommendation 4:

With the goal of securing agreements that are in Canada's best interests, the Government of Canada should complete free trade negotiations with the European Free Trade Association, the Central America Four, Singapore, and South Korea as quickly as practical.

Recommendation 5:

Recognizing that Canadian businesses have been shut out of some markets because competing countries have preferential trade agreements in place and Canada does not, the Government of Canada should determine in which countries Canadian businesses are operating at a disadvantage with respect to their major competitors, and then negotiate "defensive" free trade agreements that prevent Canada from being shut out of those markets.

Recommendation 6:

The Government of Canada should continue to consult with Canadian businesses, unions and civil society organizations active overseas, to determine where Canada's "proactive" trade interests lie, that is, where Canada would most benefit from improving two-way market access. The Government of Canada should then aggressively pursue trade deals with countries considering those assessments. At the same time, since the reputation of Canada as a whole is affected by the activities of Canadian companies abroad, the Government of Canada should also ensure that the businesses and unions with which it consults (i.e., those active overseas) are acting in a socially responsible manner.

Recommendation 7:

The federal government should develop and start to implement comprehensive strategies on Canada's commercial relations with China and India, including the conclusion of foreign investment protection and promotion agreements prior to the negotiation of a bilateral free trade agreement with each country. These strategies should also include consideration

for human rights; more aggressive promotion of Canada and Canadian products; and greater involvement of the Chinese and Indian diasporas in Canada.

Recommendation 8:

In future free trade negotiations, the Government of Canada should consider studying and possibly adopting the Mexican negotiating model, in which agreements are signed without necessarily resolving all sensitive issues and where Canadian interests are protected through the exclusion of certain sectors from negotiations. If Canada were to use such a negotiating model, then as the relationship grows, these concerns could be addressed in subsequent contact between the two parties. The Mexican model should not be employed in cases where Canadian businesses would be put at a disadvantage relative to their major competitors by a free trade deal.

Recommendation 9:

The Government of Canada should immediately open negotiations on Foreign Investment Protection and Promotion Agreements (FIPAs) with Indonesia, Vietnam and Colombia. It should also negotiate FIPAs with other countries, after consulting with businesses to determine where investment protection and promotion agreements would be beneficial.

Recommendation 10:

The Government of Canada should expand its network of air services agreements around the world, including with Singapore.

Recommendation 11:

Building on the progress made during its Trade and Investment Enhancement Agreement (TIEA) negotiations with the European Union (EU), the Government of Canada should negotiate a regulatory cooperation agreement with the EU that will remove non-tariff barriers facing Canadian businesses in that market.

Recommendation 12:

Recognizing the benefit from the expanded access to global markets that a successful Doha Round could secure, the Government of Canada should take a leadership role in ensuring the completion of a broad and ambitious outcome to the current World Trade Organisation negotiations.

Recommendation 13:

Canada should continuously push forward the agenda of the Security and Prosperity Partnership, thereby aggressively working towards the removal of as many obstacles to a seamless movement of goods and services across North America as possible, with greater public oversight and transparency.

Recommendation 14:

The federal government should undertake effective intellectual property enforcement to keep counterfeit and pirated products from entering Canada and from being transhipped through Canada to our trading partners.

Recommendation 15:

The Government of Canada should modernize and strengthen its infrastructure, tax, regulatory, human resources, innovation, and other domestic policies to ensure that Canadian companies are as well positioned as they possibly can be to compete in the global economy.

Recommendation 16:

The Government of Canada should take steps to ensure that federal tax rates on Canadian businesses are competitive with those of other leading industrialized nations. The setting of these tax rates should take into account the substantial competitive advantages of the Canadian health care system and other social programs.

Recommendation 17:

The federal government should take a leadership role and work in collaboration with provincial and territorial governments to establish a barrier-free internal market by the end of 2008.

Recommendation 18:

Given the increasing importance of lower-cost imports in the Canadian production of goods that are subsequently exported, the Government of Canada should study the feasibility and the consequences of unilaterally eliminating its remaining industrial tariffs.

Recommendation 19:

The federal government, as part of its next legislative review of Export Development Canada, should consider providing that agency with the authority to also finance imports that are critical to Canadian exports.

Recommendation 20:

The Government of Canada should immediately review its trade remedy system to ensure that critically valued imports, needed as inputs by companies who subsequently export products out of the country, are not unnecessarily blocked

Recommendation 21:

The federal government should immediately develop and implement clear and comprehensive strategies to (a) generate more foreign direct investment inflows and outflows and (b) strengthen international trade and investment in services.

Recommendation 22:

All of the above recommendations should be implemented taking into consideration the importance of democratic debate on issues contained in the report; the quality of life of all Canadian families and closing the prosperity gap; and the importance of working to raise social, labour and environmental standards, both in Canada and internationally with our trading partners.

APPENDIX A
WITNESSES

Organizations and Individuals	Date	Meeting
Department of Foreign Affairs and International Trade	2006/10/17	30
David Plunkett, Director General, Bilateral and Regional Trade Policy		
Paul Robertson, Director General, North America Trade Policy		
Terry Collins-Williams, Director General, Multilateral Trade Policy		
C.D. Howe Institute	2006/10/19	31
Ben Tomlin, Fellow		
Canadian Chamber of Commerce		
Michael Murphy, Executive Vice-President, Policy		
Canadian Manufacturers & Exporters		
Jayson Myers, Senior Vice-President and Chief Economist		
Conference Board of Canada		
Glen Hodgson, Vice-President and Chief Economist		
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Liam McCreery, Past-President		
Canadian Canola Growers Association		
Rick White, Policy Director		
Canadian Federation of Agriculture		
Marvin Shauf, Second Vice-President		
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Hans Ulrich Mathys, Member of Parliament, Parliament of Switzerland		
Mario Fehr, Member of Parliament, Parliament of Switzerland		
René Vaudroz, Member of Parliament, Parliament of Switzerland		
Svein Hansen, Member of Parliament, Parliament of Norway		
Laila Davoy, Member of Parliament, Parliament of Norway		
Franz Heeb, Member of Parliament, Parliament of Liechtenstein		
Henrik Caduff, Member of Parliament, Parliament of Liechtenstein		
Jón Gunnarsson, Member of Parliament, Althingi, Icelandic Parliament		
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Statistics Canada		
Art Ridgeway, Director, Balance of Payments Branch		
Craig Kuntz, Director, International Trade		

APPENDIX B
BRIEFS

Organizations and individuals

Scotiabank

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 30, 31, 37, 38, 39, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56 and 57) is tabled.

Respectfully submitted,

Leon Benoit, MP

Chair

DISSENTING OPINION BY THE CONSERVATIVE PARTY

The Government members of the Standing Committee on International Trade choose to offer a dissenting opinion to the Committee's Eighth Report. However, in order to be clear, this dissenting opinion refers only to the final recommendation. The Government members believe that the report contains many excellent and focused recommendations which the Government should strongly consider when forming its future policy. We have heard from witnesses that support these recommendations and we believe their testimony is encapsulated within the previous 21 recommendations. On the other hand, this dissenting opinion takes issue with the 22nd and final recommendation of the report which cannot stand to pass without offering our opinion.

Briefly, there are two fundamental issues at stake here, both of which deal with recommendation 22. The language of the recommendation is as follows:

> All of the above recommendations should be implemented taking into consideration the importance of democratic debate on issues contained in the report; the quality of life of all Canadian families and closing the prosperity gap; and the importance of working to raise social, labour and environmental standards, both in Canada and internationally with our trading partners.

Firstly, this recommendation contains a number of propositions which were never the subject neither of witness testimony nor within the overall purview of the Standing Committee on International Trade. These propositions could become the subject of other studies by our committee but at this stage would be premature to pass recommendation on them as we have no evidence submitted to support or refute this claim.

Secondly, technically, by the use of the phrase, "All of the above recommendations," this recommendation would completely subsume the previous 21 recommendations. This has significant implications for the entire report. All previous recommendations deserve to stand on their own and are clearly supported by the testimony of the witnesses. One recommendation shouldn't be allowed to colour all the other recommendations.

Again, while noting that the majority of the report offers clear, focused recommendations for Canada's trade policy, the Government members concur that recommendation 22 is out of order and should not be included in this report. For these reasons, the Government members choose to attach this dissenting opinion to the Eighth Report of the Standing Committee on International Trade.

DISSENTING OPINION BY THE LIBERAL PARTY

While the Liberal Party agrees in principle with many elements of this report, we cannot fully endorse this report. There are still a number of concerns that have either not been fully addressed, or have not been included at all.

Canadian businesses, farmers and workers are among the world's most competitive. We all stand to benefit from better access to global markets, especially in emerging economies like China, India and Brazil. Open markets must be supported by improved trade rules and new measures to cut red tape at the border.

When negotiating either bilateral or multilateral trade deals, Canada's must maintain the position that the best deal possible must be reached for Canada. For example, the concerns of manufacturing or other sensitive sectors must be taken into account in all negotiations.

With regards to the WTO negotiations, it is imperative that Canada maintain its balanced approach to the negotiations. It is the Liberal Party's view that we need ambitious outcomes across the board: a level playing field for agriculture, better market access for agriculture, industrial goods and services, improved trade rules, and deeper integration of developing countries into the global economy.

Canada should be seeking the elimination of agriculture export subsidies as quickly as possible, substantial reductions in trade-distorting domestic support, and substantial improvement in market access for agriculture and food products. But, best results can only be achieved if countries have the flexibility to accommodate their domestic sensitivities. For Canada, this means ensuring that our producers continue to have the ability to choose how to market their products, including through orderly marketing structures such as supply management.

The Liberal Party has concerns with regards to supply management based on Minister Emerson's own statement with regards to trade issues concerning the manufacturing sectors and supply management:

> *"I'll probably get hell for this but I can envisage a time where we are just going to have to say to some resistant sectors that there is a national interest and we should work with sectors to see if they can, with some modest support from government, transition to globally competitive stature or we're going to just have to go through the painful adjustments."*
>
> (Western Producer, December 21, 2006)

In addition, when speaking about supply management and Canada's position on the WTO negotiations, Conservative Agriculture Minister Chuck Strahl said:

"It is inconceivable that we would walk away from the WTO so take that as your first gospel truth. Then the question is, how do we move ahead to look after your interests?"

(Western Producer, March 15, 2007).

Both of these statements lead us to believe that the Conservative government is willing to sacrifice supply management at the WTO negotiations.

The Liberal Party also has reservations about the Conservative government's decision to close Canadian consulates in Milan, Italy, St. Petersburg, Russia, and Fukuoka and Osaka, Japan, because of the significant economic and political impact on our relations with these countries.

In Milan the consulate trade office helped attract millions of dollars of investment by successfully promoting Canada as an entry point to the NAFTA market for Italian entrepreneurs. Milan is the business capital and epicentre of Italy.

Japan is currently Canada's second largest trading partner, after the United States. The Liberal Party looks at Japan as a strategic partner in terms of doing business with the rest of East Asia.

Russia is a country with 11 time zones, and the most diverse and unique geography in the world. It is non-sensical to base operations solely out of Moscow when it is the North-west region of Russia that is experiencing the growth. It also does not make sense to have one office to service one of the largest countries in the world.

The Liberal Party also concerns about he overall trade strategy program. The Conservative government cut the proposed Can-Trade program that was designed to increase trade.

CAN-Trade was designed on 4 key pillars:

- Communicating the Challenge
- Showcasing Canada to the world
- Securing International Markets
- Winning in the global marketplace

The Liberal party was not able to create CAN Trade as it was announced in the 2005 Fiscal update. Much of the ideas and plans were not used by the new government and in some cases the government seems to be moving in the opposite direction.

The government announced only $60 million investment in the international trade department in the 2007 budget. This is far short of the $485 million program introduced by our previous government.

DISSENTING OPINION BY THE BLOC QUÉBECOIS

For reasons of intellectual consistency, the Bloc Québécois cannot support the process that led to the adoption of this report.

As absurd as it may seem, the recommendations were adopted before the draft report on Canada’s trade policy was studied. This goes against all reason.

How can a committee amend a text that supports previously adopted recommendations, other than to agree with them? Since the Bloc Québécois voted against most of the recommendations and wrote a dissenting report, it is impossible for it to rework a text that supports recommendations that go against the interests of Quebec.

DISSENTING OPINION BY THE NEW DEMOCRATIC PARTY

PETER JULIAN MP– NDP CRITIC ON TRADE - March 28, 2007

"It is never too late to become what you might have been."

George Elliot

The report of the Standing Committee on Trade lacks balance because it fails to represent the views of many of the progressive groups and associations that came and presented to the Committee on issues of fair trade. The perspective and hard work of groups such as trade unions, associations for fair trade, experts and economists, who in total represent millions of Canadians and hundreds of thousands of workers is ignored.

Although the NDP supports some of the recommendations in the report (1,2,3), many are one sided, lack focus, or reach a conclusion for the wrong reasons.

The Committee endorsed recommendation 13 to push forward the Security and Prosperity Partnership (SPP) without any preliminary hearings or research on this central issue to Canadian sovereignty. Also, concerns about the automotive and shipbuilding sectors that were raised in a variety of ways at this Committee are not reflected in its report or its recommendations (i.e. recommendation 4). Recommendation 9 does not specify that the government's best practices should include an impact assessment, and the consequences on human rights before a Foreign Investment Protection and Promotion Agreement (FIPA) is concluded.

The NDP is pleased that the committee agreed to substantive changes to recommendations 5, 6, 7 to include a better protection against trading away Canadian advantages in strategic areas, to provide better ground support for communities in Canada that try to develop trade relations with their countries of origin, and also to increase marketing support so that Canadian products are recognized and appreciated abroad. The framework included in recommendation 22 is an important move towards re-setting our trade priorities.

Generally, the report is based on the assumption that fast tracking deregulation and blind faith in bilateral free trade will create sustainable and positive prosperity and employment, despite the facts pointing to greater disparity and the existence of many trade models that differ in both assumptions and solutions.

For instance, the facts show that the Canadian manufacturing base has been steadily eroding since the FTA was brought in, and that it eroded further with NAFTA.

The facts also show that since the FTA was signed, a smaller proportion of Canadian households have been getting a greater share of income, but the report recommends more of the same bilateral trade policies that have created such growing disparity in the sharing of prosperity and have dramatically reduced the policy space available to Canada's governments, a policy space critical to ensure that Canada remains a sovereign nation.

Under the NAFTA for instance, inequality in Canada has grown dramatically; 60% of Canadian families have seen their income decline, another 20% have seen their income stagnate, while the very wealthiest of Canadians have seen massive increases in their incomes.

Bilateral deals of the FTA-NAFTA type have led to an increase in fiscal, social and environmental dumping, causing downward pressure on taxes, social programs and environmental standards, as investor's demands persistently trump social development, worker's rights and environmental priorities.

Under NAFTA the Government of Canada conceded privileged US access to Canada's strategic oil and gas, water and forests resources, in return for a binding dispute settlement mechanism that failed to work, as evidenced throughout the softwood lumber crisis. NAFTA's energy sharing provisions force Canada to increase its non renewable crude oil & gas production to supply the US economy and to import half of the oil required for domestic Canadian consumption from unsecured sources. This has not only compromised the economic welfare of future generations but is also leading to irreversible harm to the environment.

The Canadian Association of Labour Lawyers in a June, 2006 report on extending free trade with Central America (CA4FTA) has pointed out that Canada's existing free trade arrangements are essentially faulty and have not delivered. The Association has reported, "While it is true that trade between the three North American partners has increased, the perceived economic benefits have been hard to discern for workers. Economic growth in Mexico over the last ten years has been sustained at (…) 1 percent on a per capita basis. As a result, the Mexican economy has not been able to generate enough employment for its growing labour force. Hence, real wages in Mexico have been declining over the last ten years at a rate of 0.2 percent per year. As a result, income disparity between the U.S. and Mexico has actually increased over the last ten years, by 10.6 percent.[1]"

The issue is not one of more trade or less trade, but what system and rules of trade are best for economic development and poverty reduction. With some notable exceptions, the majority report has failed to define and provide the available options.

NEW DEMOCRATS BELIEVE A Canadian Trade Strategy should be inclusive and not surrender control over key elements of Canada's industrial development and energy policy which ensure that the goals of the market are consistent with the broader public good. A Canadian trade policy must balance the needs of business with those of Canadian citizens and civil society and must be accompanied by flanking policies that ensure public investment in health, education and infrastructure.

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[1]Submissions Concerning the Proposed Free Trade Agreement between Canada, El Salvador, Guatemala, Honduras, and Nicaragua, The Canadian Association of Labour Lawyers, June 6, 2006.

A NEW DEMOCRATIC fair trade policy is rooted in the following principles:

- **Sustainability and Commitment to a cleaner global environment**. Trade policies should not support endangering eco-systems e.g. trading fresh water, producing or exporting harmful technologies and products.

- **Justice and commitment to fair trade and the respect of human rights**. A policy in support of fair trade policy promotes labour rights, decent working conditions, and the respect of children and the environment by our trading partners. Trade has to often been automatically correlated to growth while in fact, unjust trade degrades competition and promotes the wealth of the very few and the exclusion of the many.

- **Diversification of Exports.** Canada's trade policy should move away from excessive dependence on the US market, and from bilateral trade deals that have accelerated the erosion of our manufacturing base, the loss of quality jobs and of our ability to maneuver. The federal government is only paying lip service to diversification, and is continuously implementing policies that are dramatically increasing our dependence and integration to the US.

- **Support of higher domestic value added production and manufacturing, including and a made in Canada and a 'Canada First' procurement strategy.** The crises in the softwood lumber, the textile and the automotive industries have shown that Canada does not have a strategy to retain the domestic valued added. A "Made in Canada" trade policy aimed at retaining a higher added value in a chain of production would protect valued Canadian institutions, public services, and preserve our ability to make the important decisions on our nation, our communities, our social programs and our environment.

- **Defence and promotion of supply management systems and marketing boards** Supply Management creates certainty and predictability in highly cyclical agricultural markets without skewing world prices. Marketing boards provide the opportunity for smaller farmers to connect with the market and generate economies of scales. They are not just essential for the Canadian family farm, whose prosperity is at the heart of the rural economy and of a national food policy, but is also a blueprint for developing nations who seek to develop counterweights to the domination of transnational agri-businesses. Canada should be leading in promoting supply management to other nations.

- **Support a reform of the WTO:** The WTO rules need to be reformed to include the recognition that participatory countries that do not recognize the right to strike and to free collective bargaining, and who abuse the environment violate the rules of fair competition. Global labour standards make perfect business sense since they can help capture or retain a minimum level of value and wealth in every country and stimulate domestic trade.

- **Protection of the sovereignty of Canada:** The support of deep integration in the report of the Standing Committee on Trade blatantly ignores the need to maintain Canada's identity and sovereignty.

New Democrats support the consensus reached in Ottawa at the second annual North American Forum on a People-Centered Approach to Trade in June of 2006. The consensus seeks the development of a people-centered approach to trade in support of democratically negotiated and ratified transparent agreements and the presentation of common legislation in the three national parliaments. The purpose is to ensure that the process of trade and investment is a net creator of good jobs that provides solid income and does not put employment, the environment or sovereignty at risk in any of the trading partners.

MINUTES OF PROCEEDINGS

A copy of the relevant *Minutes of Proceedings* of the Standing Committee on International Trade (Meetings *Nos.30, 31, 37, 38, 39, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56 and 57)* is tabled.

Respectfully submitted,

Leon Benoit, MP

Chair