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## **Standing Committee on International Trade**

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**EVIDENCE**

**Tuesday, April 24, 2007**

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**Chair**

**Mr. Leon Benoit**

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## Standing Committee on International Trade

Tuesday, April 24, 2007

• (1105)

[English]

**The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)):**  
Good morning, everybody.

Pursuant to Standing Order 108(2), the House of Commons Standing Committee on International Trade is undertaking a study examining the opportunities and challenges Canadian businesses and our trading partners face with respect to the Canada-U.S. trading relationship.

The committee is specifically interested in identifying and removing the obstacles that stand in the way of stronger economic ties with the United States, to answer the question, what can the Government of Canada do to help Canadian businesses take better advantage of trade, investment, and other business opportunities?

Today we have as witnesses, first of all, Mr. Anthony Burger, chief economist, from the office of the chief economist at DFAIT. We have William Crosbie, director general, North America bureau, DFAIT; we have Paul Robertson, director general, North America trade policy, DFAIT; and we have Mr. Lee Gill, director of industrial research at Industry Canada.

I'd like to thank you all very much, gentlemen, for being here. You have been in discussion with the clerk. You know you have about an eight-minute presentation from each department, and then we'll open it up to questions. We have only an hour and a quarter with you this morning. After that, the committee will be finalizing, hopefully, our report and as well dealing with the issue of committee travel.

Gentlemen, perhaps you could go ahead. We're looking forward to your presentations and then the answers to the questions. You have told me you have some other people with you who would be willing to answer questions, if the need arises, but please proceed.

Mr. Crosbie.

**Mr. William Crosbie (Director General, North America Bureau, Department of Foreign Affairs and International Trade):** Thank you, Mr. Chair.

We have left the full copy of our opening remarks with the clerk, but in order to reduce the time we have abbreviated our oral comments. I will start off and then I will turn to my colleagues to continue the opening statement. We're aiming to reach about nine minutes for our opening statement.

Good morning. My name is Bill Crosbie. I'm the director general of the North America bureau at Foreign Affairs and International Trade Canada.

While my colleagues Tony Burger and Paul Robertson will provide you a more in-depth picture of Canada's economic relationship with our North American partners, I've been asked to begin this presentation with a broad outline of the political facets of our relationship with the United States and Mexico.

The United States is more than just our number one trading partner; it is overwhelmingly our most important source of both investment and new technologies. It is also our most important bilateral relationship, built on a foundation of common values.

[Translation]

Ours is a rules- and institutions-based political partnership, solidified by more than 300 treaties and agreements which govern our relationship with the United States in all political and economic areas, such as border management and ecological cooperation. Within this framework, defence and security of North America remains the highest priority for both our countries.

[English]

Of course, the relationship with our North American partners is not without its challenges. The first is demographic in nature. The U.S. population is slowly shifting towards the south and southwest, where Canada is less "top of the mind" and less influential. At the same time, the Hispanic population, which historically has had little contact with Canada, is a growing force in U.S. politics.

Secondly, in the post-9/11 environment, "security trumps trade" is not mere rhetoric. The U.S. has enacted or adopted numerous measures with the stated intent of enhancing homeland security, such as the Bioterrorism Act and the western hemisphere travel initiative. Regardless of whether these measures achieve their security objectives, they have the potential to impede the flow of goods and legitimate travellers across the Canada-U.S. border or to make companies doing cross-border business less competitive.

[Translation]

Finally, our relationship with the United States is increasingly being viewed within a trilateral context by American political leaders in the Administration and Congress. In all senses—politically, economically, socially—Mexico and the U.S. Hispanic population, dominated by Mexican-Americans, have changed the way Americans view their own society. These trends have also affected how the U.S. views its relationship with its two neighbouring governments. U.S. border policy is the most notable example.

[English]

Let me be clear: the evolution of Mexico as a political, economic, and security partner for Canada and for the United States is something we welcome. It is to our great benefit that our relationship with Mexico has flourished, particularly since the signing of the NAFTA. Moreover, a vibrant and more prosperous Mexico adds to the unique strengths of the North American economy.

At the same time, we don't wish to lose what has been unique about the Canada-U.S. relationship, notably along our shared border. The U.S. is our most important ally and partner, and this will never change. The government's new framework for advancing Canada's international commercial engagement, the global commerce strategy, emphasizes the primary importance of this market to stimulating Canadian productivity, growth, and prosperity.

The strategy, which represents the international component of the government's economic plan, *Advantage Canada*, sets out an approach to sustain our North American advantage by reinforcing our strong network and mission presence, by increasing our emphasis on attracting investment in key knowledge-intensive sectors, and by building more robust innovation links to fuel Canadian research excellence. The global commerce strategy recognizes that our competitive position in the U.S. is not only an enormous benefit to our firms, but it also enhances our attractiveness as a location for foreign direct investment and ensures that regional and global value chains continue to run through Canada.

• (1110)

[Translation]

But we need to be more proactive in responding to political and economic trends in the U.S., in order to more fully benefit from them, maintain our traditional access, and continue to enhance our competitiveness and prosperity.

Our missions in North America will continue to act as our first line of defence in helping identify and develop strategies to prevent and/or remove impediments when they arise. In the U.S., our missions' staff play a vital role in working with provinces, other federal departments, Canadian firms and industry associations to advocate on their behalf with the relevant U.S. actors. We also welcome input from members of Parliament and invite you to visit and work with our missions in North America.

[English]

This political context helps inform us on how to best engage the United States and Mexico with respect to our economic interests.

To discuss those economic elements, I will now turn to my colleague Tony Burger.

**Mr. Anthony Burger (Chief Economist, Office of the Chief Economist, Department of Foreign Affairs and International Trade):** Thank you, Bill.

[Translation]

Thank you, Mr. Chairman.

The Committee has asked what has been the effect of Canada-North American economic integration on the Canadian economy, industrial composition and the welfare and lives of Canadians.

[English]

Our view is that that impact has been positive in terms of growth and employment, but our success today needs to be complemented by new strategies to address today's global challenges. To do this, all three NAFTA countries will need to work together to ensure that we have a common North American platform that can compete on a world stage, and that we can ensure, therefore, that our goods and services are competitive, not just in the U.S. but in global value chains that cross the Atlantic and the Pacific.

NAFTA and the Canada-U.S. FTA facilitated a restructuring of our economy and ensured that our secondary manufacturing production became more specialized, that production runs became longer and that output increased, with incomes rising. But today we have accomplished what NAFTA was set out to do, and the new question is, how do we optimize our position on the North American platform on the world stage?

[Translation]

China has changed dramatically in the 90s and in this decade, and will continue to change dramatically. India is changing also. So are Brazil, Russia, South Africa and many other countries that form part of global supply chains. Another place of change is the European Union, which is busily integrating the common economic space of a 25-member community.

[English]

Canadian exports to the U.S. have risen by 238% since 1989, while merchandise exports to Mexico are up by 304% since 1994, when NAFTA came into effect. The manufacturing sector has benefited from this, with its share of GDP rising from 15.7% in 1991 to 19.0% in 2000. We know that it has since fallen with the restructuring that the global environment has generated. Manufacturing now accounts for 15.9% of Canadian GDP, but even though that's a fall from 19% in 2000, it's still better than it was in 1991. We notice that over the same period there has been a significant reduction in the share of manufacturing in the U.S. economy. So if you're concerned about the future of manufacturing in Canada, it has done a lot better than that of our partner to the south. So in 2006, 82% of our manufacturing exports went to the United States. Another indicator, unemployment, stood at 7.5% in 1989. It went up to 11.4% in 1993, but declined to 6.3% in 2006. Over the period since 1989, we've had a significant decline in unemployment. We have a stronger manufacturing sector than we had at the beginning of the period, and the GDP has grown by 56% in real terms since 1989.

Some other statistics show that we have also fared well from a structural perspective. The number of head office jobs in Canada was 158,000 in 1999. There were 175,000 in 2005, the latest year for which we have figures. In 2006, there were 14 Canadian companies in the *Fortune 500*, compared with only five in 1995. GDP per capita has risen from \$28,000 in constant 2000 dollars, to \$36,500 today. Average family disposable income has risen by 7.7%, or \$3,600 in constant 2000 dollars over the same period. Spending by all levels of government on health and education has risen by 129% to \$96 billion.

I wouldn't be telling the whole story if I didn't admit that there has been a decline in the real income of the lowest income groups, but recent data indicate that this has turned around, and income in all income groups is now rising. It is likely that by next year the losses in income for the poorest will have risen to where they were before the adjustments the economy went through during the recession in the early nineties.

Some changes would have happened anyway, so how much of this is attributable to NAFTA? Based on studies by experts, we conclude that growth in Canadian exports to the U.S. would have been lower by about half if it were not for the two trade agreements. Productivity growth would have been one-quarter lower, and that would be 90% lower for the most heavily impacted industries.

Access to the North American market allowed Canadian manufacturers to adopt more specialized, longer production runs. The average manufacturing firm in Canada has increased in size by over one-third. Consumers have saved approximately \$8 billion annually due to the lower cost of buying what they require.

I won't go into much about *Advantage Canada* because my colleague talked about it. I'll just say that the strategy basically has a domestic component and an international component, and the global commerce strategy is the international component. I'll now talk a little about the investment dimension of that global commerce strategy.

● (1115)

[Translation]

Foreign-controlled firms operating in Canada contribute 22% of Canadian assets, 25% of capital investment, 30% of operating revenues, 32% of R&D expenditures and 25% of merchandise exports. Thus foreign direct investment transfers leading-edge technologies, stimulates domestic competition, introduces new management techniques et provides better access to distribution channels and international markets. All in all, foreign direct investment enables higher productivity and living standards for Canadians.

[English]

The United States is the largest foreign investor in Canada. U.S. direct investment at the end of 2006 was \$285 billion, accounting for 61.5% of the stock of total FDI in Canada. Mexico is also an increasingly important investment partner. At year end, Mexican FDI to Canada reached \$204 million, an increase of 26% since 1995.

Canada is also investing in Mexico, where our investment reached a stock of \$3.1 billion in 2004 compared to a much lower level in 1995. It grew by 231% over that period.

● (1120)

[Translation]

North America shares a vision for an enabling environment that mobilizes respective science, innovation and technology and business strengths. Canada and the United States already enjoy the world's largest bilateral science, innovation, technology and commercial relationship. There are strong research and development linkages between government entities, academia and research institutes.

[English]

Another part of the global commerce strategy entails promoting the international engagement of Canadian firms to access to technology, talent, investment, and markets. The Canada-California strategic innovation partnership, an S and T partnership, demonstrates the value of private-public partnerships in high-speed broadband links, cancer stem cell and infectious disease research, sustainable energy, and nanotechnology. In all these areas, cooperation with the United States helps us build a platform for international competitiveness.

Another aspect of our support is trade policy. For a review of the salient trade policy issues facing Canada and our North American partners, I'll now turn it over to my colleague Paul Robertson.

**Mr. Paul Robertson (Director General, North America Trade Policy, Department of Foreign Affairs and International Trade):**

Good morning, my name is Paul Robertson. I'm the department's director general of North American trade policy.

After 13 years of growing trilateral trade and investment, NAFTA continues to be the cornerstone of our trade investment relationship with the United States and Mexico. NAFTA has served Canada, the United States, and Mexico well. It has stimulated growth, raised standards of living, and delivered competitive prices for consumers. It is now a mature agreement that is largely implemented. In this respect, the completion of tariff liberalization in 2008 will establish virtually tariff-free trade in North America, and the agreement has proven to be of significant benefit for the trading community.

Also, throughout the years, the different NAFTA working groups have continued to pursue work plans that facilitate the free flow of goods, services, and capital, and that strengthen North American competitiveness. As shown earlier by my colleague, the benefits of that work are tangible.

The United States is our largest trading partner, and this relationship is almost completely dispute free. Canada is committed to working closely with the United States to strengthen North American competitiveness and to further improve the largest and most comprehensive trading relationship in the world. Certain trade irritants exist, and we will continue to defend Canadian interests as required. But they do not define the relationship, and both sides continue to work collaboratively to achieve results.

[*Translation*]

Our trade relations with Mexico are also strong. This is now a well-established economic relationship and we are working with Mexico to advance issues of common interest, including through the Canada-Mexico Partnership.

It is, however, important not to take all this success for granted. With the emergence of global competition by countries like China, India and Brazil, we need to work with the United States and Mexico to further increase North American competitiveness and prosperity, so that we are well positioned to compete in the new trading environment.

[*English*]

To this end, at the last NAFTA commission meeting in March 2006, the three ministers of trade directed officials to identify opportunities to achieve concrete, commercially relevant results that will continue to ease the flow of goods, services, and capital between our three countries.

Specifically, they initiated work that will focus on sectors and the removal of impediments to the free flow of goods, services, and capital. They mandated officials to conduct a thorough review of the operations of the NAFTA working groups and committees to see if the efficiency of these institutions could be further improved. Finally, they also asked officials to examine how our three countries might collaborate in trade agreements with other countries, and how elements of new FTAs might inform improvements to NAFTA practices, such as transparency and trade facilitation. For example, there have been incredible advances in communication technology, such as the Internet, since NAFTA was developed, and the agreement's practices could be improved by making better use of such technologies.

Overall, the North America trade environment has changed significantly during the last decade. While there have been important improvements, and NAFTA is still a crucial instrument, we must ensure that we continue to work together to meet tomorrow's challenges.

To summarize, through our efforts on advocacy and trade policy, and through the services we provide to Canadian businesses, both in Canada and with our network of missions, we are helping them succeed in an increasingly competitive global marketplace. As a result of these ongoing efforts, we will continue to work to achieve sustainable prosperity for all Canadians.

• (1125)

[*Translation*]

Thank you. We would now be happy to take questions from the Committee.

[*English*]

**The Chair:** Thank you very much, gentlemen, for your presentations.

We'll get right to the questioning now.

From the official opposition, Mr. Bains, you have seven minutes.

**Hon. Navdeep Bains (Mississauga—Brampton South, Lib.):** Thank you very much, Chair.

I appreciate the presentations and the fact that you collaborated together. It gives us an opportunity to ask our questions, because we have limited time during this committee meeting.

There's general recognition amongst all committee members, and the vast majority of Canadians, of an appreciation of our relationship with the United States in terms of our economic ties. Especially with NAFTA, it's become very popular. Ever since it was debated earlier on in the House of Commons, it has been a contentious issue. A great deal of education on the importance and the role that NAFTA plays in developing an economic relation has taken place. As well, we have cultural and historical ties.

Post-9/11, there has been a recognition that security is a top-of-mind issue for many Canadians and Americans. So we understand the importance of those issues, and therefore the creation of the SPP came into play. But there's been harsh criticism of the security and prosperity partnership setup. That criticism hasn't necessarily come from Canada, but I've heard and seen it coming from the United States, especially now with a Democratic government.

Initially I want to hear from you if that criticism exists in the United States, and is that something that's been brought to your attention?

**Mr. William Crosbie:** Are you referring to criticism of the security and prosperity partnership in the United States?

**Hon. Navdeep Bains:** Yes.

**Mr. William Crosbie:** I read the media the same way as you have. I know that through its website, the United States government has attempted to address criticisms of the SPP. Similarly, the Canadian government website on the SPP attempts to address questions that have been raised. I know that on its website, the Mexican government has tried to ensure that its populace is informed of what's going in their SPP engagement.

**Hon. Navdeep Bains:** In fact, the reason I mention this is that it's not simply criticism amongst ourselves here in terms of some of the concerns that will be raised. But there also seems to be criticism in the United States and Mexico.

One of the criticisms we've heard consistently in all three countries is a lack of transparency and accountability, especially regarding civilian involvement and oversight. To what extent have efforts been made to include or involve civilian oversight in this process?

**Mr. William Crosbie:** Thank you.

On one point, the security and prosperity partnership is not an agreement. There is a misunderstanding among many that the governments have a legally binding agreement, or an agreement of any kind, that defines the partnership. In fact, it is a process by which governments seek to cooperate more fully on a range of issues.

With respect to each government, we have our own processes to engage the public and the stakeholders if we're talking about a change of policy, law, or regulation. Through the partnership, we are attempting to identify areas where individually we might choose to make changes that would work if they were done together. But they are subject to the usual oversight that all of our changes would have.

As I say, if it's through Parliament or a regulatory process, that's how citizens are able to be engaged in the work of the SPP.

**Hon. Navdeep Bains:** Who are the key stakeholders or players in the SPP?

**Mr. William Crosbie:** The SPP covers a broad range of activities. Regarding energy, Natural Resources Canada has the lead. Then our energy ministers have their own processes to engage with the stakeholders who are particularly interested in energy. Similarly, if you look at some of the other areas covered by trade policy, for example, that are the subject of discussion in the SPP, the trade policy community, the stakeholders with an interest in Canada trade policy, and trade negotiations are also engaged in the department's processes.

There is not one overriding, umbrella way for engaging with stakeholders on the SPP, because the sheer variety of different issues being discussed is addressed through specific processes.

• (1130)

**Hon. Navdeep Bains:** How do you engage the general public through those specific instances? Is there an avenue for them? That's what I'm trying to get at with this line of questioning.

**Mr. William Crosbie:** In terms of how our government is organized, we have a website run by the Department of Foreign Affairs and International Trade. We have two lead departments, Public Safety and Industry Canada, for the pillars of security and prosperity. And each one of our departments has invited the public to be engaged with us on the SPP and on particular issues of interest to them, either through the website or meetings with officials. So we're certainly open and willing to talk to people about the security and prosperity partnership.

**Hon. Navdeep Bains:** With respect to the SPP, in your opening remarks you referred to the NAFTA being a mature agreement now, that it has reached a point of maturity, and that there is a general understanding that the security and prosperity partnership is maybe an additional phase to that in order to further enhance integration between both countries.

Do you see the SPP evolving into anything else going forward, or is it simply a short-term arrangement?

**Mr. William Crosbie:** Again, I would make a bit of a distinction between the NAFTA process, which is a legally binding process engaging the three governments, and the discussions that take place in the SPP. The intention of the SPP was not to replace the NAFTA or to replace other processes. So the SPP, in and of itself, is not the place where we would negotiate new obligations in the trade area.

My colleague Paul might want to comment a little bit on what they're doing in terms of the NAFTA and in looking at potential areas where they may be building on the commitments we've already made.

**The Chair:** Mr. Robertson.

**Mr. Paul Robertson:** Thank you, Chair.

I guess the first point to make is that the processes aren't mutually exclusive. As a work program, the NAFTA, of course, reinforces and takes into account activities. When I said, for example, that there's a maturity in the NAFTA relationship, that's why trade ministers at the last commission meeting tasked officials basically with looking at NAFTA in the next decade and at new initiatives that could be taken in that framework.

For example, ministers have now identified their interest in looking at sectors as a whole in order to understand what type of government-initiating problems can be removed to facilitate a greater flow of goods, services, and investment. That is a sectoral approach, as opposed to a specific issue approach, and looks at the whole economic relationship and how it's working within each of the sectors. So that's a new initiative being taken.

Other elements of rejuvenation, as my colleague Tony has mentioned, include a recognition that we're looking not just for increased activity within North America, but also at using the North American platform to compete more effectively in the world. As you know, we face many challenges in terms of new economic competitiveness in Asia and Latin America and elsewhere; therefore, this is also being viewed as a new priority when we view the NAFTA work program. Things such as how we deal with third country foreign trade, or FTAs, free trade agreements, etc., are the types of initiatives now taking NAFTA into the next decade. So we're looking at what we can do to facilitate the freer flow of goods, services and investment to increase not only intra-NAFTA trade but also North American trade with the world.

•(1135)

**The Chair:** Thank you, Mr. Bains. Your time is more than up.

We'll now go to the Bloc Québécois, and Monsieur Cardin, for seven minutes.

[Translation]

**Mr. Serge Cardin (Sherbrooke, BQ):** Thank you, Mr. Chairman.

Good morning, gentlemen. It is a tremendous pleasure to have you here to discuss Canada's trade policies.

The Security and Prosperity Partnership of North America, or SPP, raises a certain number of questions. I suppose that it is an important forum for discussion, but it is not a treaty *per se*. To what extent are the decisions or policy directions developed there official and mandatory? I imagine that there were and still are sectors or organizations with prime responsibility for activities such as security and trade.

Has the SPP come to replace other working organizations in which the three countries are involved?

**Mr. William Crosbie:** No. The partnership process is really a complementary one. Its purpose is to engage officials so they can gain a better understanding of the commitments made by other governments in different areas.

[English]

For example, in the area of regulation, by working together, the officials from the three countries have attempted to identify areas where we might be able to reduce barriers that could impede the good flow of products or services, but have done so in ways that continue to respect our national interests and national priorities.

For example, it's a cooperative framework, where we don't agree as three governments that we're going to do something in the SPP, but look individually at whether or not we might make changes to our approach. So if you're in Health Canada, you have your own process, and if you wish to make a change to your regulations, then you will go through the process of consulting with your own stakeholders and citizens on that.

So the SPP does not replace any of those existing ways in which departments advance their mandates.

[Translation]

**Mr. Serge Cardin:** It's an opportunity for a number of people to get together and discuss economic development and prosperity in the context of security. Quite a few border crossings in Quebec that were previously controlled by the Royal Canadian Mounted Police have been shut down. Would these kinds of decisions be made as a result of discussions under the SPP with people responsible for security and trade? The elimination of these border crossings must in some way have diminished or weakened security at the border. Is this the kind of thing that is discussed through the SPP?

**Mr. William Crosbie:** I should point out that our department is not responsible for SPP working groups. Those questions should be put to our colleagues at the Department of Public Safety. As regards prosperity, you would need to talk to our colleagues from Industry Canada. If the Committee is interested in broadening the discussion

on SPP, it could invite our colleagues from those two departments to come and explain exactly what each working group is doing.

**Mr. Serge Cardin:** Let's take another example that has more to do with trade. Canada had signed an aeronautics contract with the United States, and we have had to suspend employees because of their origin, if they were something other than Canadian or American. That is probably an important irritant in economic transactions involving the two countries.

•(1140)

**Mr. William Crosbie:** The Department of Public Safety is the one responsible for negotiating with the United States on those specific questions. The SPP has not replaced that process. Border questions are really bilateral issues between Canada and the United States, because the situation at the Mexican-U.S. border is quite different. Those issues are discussed more through bilateral fora and processes.

**Mr. Serge Cardin:** I guess the Security and Prosperity Partnership of North America is probably not the place for discussing borders and irritants, or the free movement of people, services and goods. However, could there be discussion in that context of a border surrounding the three countries, which would abolish borders between the countries engaged in mutual trading activities?

**Mr. William Crosbie:** We can use the SPP process to address issues affecting all three countries, but under one of the principles underlying the SPP, if two governments want to do something, the third does not have to agree. For example, under the SPP process, there may be initiatives taken that involve the Mexican and U.S. governments, but that do not affect Canada. We do not try to eliminate a bilateral process to talk about issues that only affect two countries, but through this process, we do try to identify what could be benefits or opportunities for the three countries, so as to achieve enhancements in areas like the economy, the environment and energy.

**Mr. Serge Cardin:** The SPP *per se*, which also leads to economic integration, has meant that many people are now asking themselves a lot of questions precisely about economic integration and have a concern that this kind of integration could negatively affect Canada or particularly Quebec, where I live and where I hear that kind of commentary. People are concerned about prosperity, obviously, because there are inequities that cannot be changed. The United States has a population of 300 million; Canada has a population of a little more than 30 million. So there is an important disparity there when it comes to trade; that is perfectly clear. This economic integration is thus a concern for people, who also fear, to a certain extent, that Canada may lose some of its sovereignty as a result.

What do you say to people who have serious concerns about economic integration?

**Mr. Anthony Burger:** I believe the challenge is to see how to benefit and make gains as a result of globalization. Globalization is a reality, and there is nothing we can say or do to stop the tide from rising and bringing change along with it. We can't simply say we don't want globalization.



So, how can we make the most of changes occurring in the global economy? To achieve that, our policy is to establish a strong base in North America to benefit to the greatest extent possible from international value chains—in other words, parts production in one country, value added in another country, and final manufacturing in a third country.

What is our niche? And what is North America's niche? Well, I believe that in terms of the world as a whole, North America is not the only engine at this time. As a result, I think that what we have to do is work closely with our North American partners to present a strong economy to the rest of the world.

• (1145)

[English]

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

Go ahead, Mr. Gill, briefly.

**Mr. Lee Gill (Director of Industrial Research and Analysis, Policy and Sector Services Branch, Industry Canada):** The globalization that's occurring and the impacts that are happening within our economy are benefiting us. They've benefited us considerably during the last couple of decades. There are certainly some industries that will face restructuring. Difficulties happen for workers and for communities, and we recognize that.

The government, HRSDC for example, is looking at those sorts of issues and has been looking at those sorts of issues. We don't want to necessarily stop the restructuring that is occurring; we want to assist it where it will be of benefit.

There are things we've done in the textiles areas, for example, to help firms restructure in such a way that they move up that value chain, so they can compete with others. We have increased a certain number of our imports in the production process, as have the American companies, in order to make sure that we take advantage of our comparative advantages, our skills, the skills that our people have, so they can earn higher wages in the long run and in the medium run.

The security and prosperity partnership thing is part of that. As Anthony points out, it's essential that we get our act together within North America so that we can compete with the Chinas of the world, the Indias of the world, in a way that we can both take advantage of our comparative advantages and improve the standard of living of Canadians.

With the security and prosperity partnership, for example, there are a number of accomplishments that have occurred. We've addressed complex issues such as food labelling, common border infrastructure policies, environmental monitoring, and the liberalization of rules of origin, about which there are issues with respect to trade in terms of the portion of your production that is actually yours, versus the portion that is imported content from someone else. We've established a North American marine protected area network. We've agreed on a framework of common principles for electronic commerce. There's been the development of a trilateral steel strategy, and I could go on.

So there are a number of things that aren't necessarily covered under other areas that have been worked out under this SPP process,

which we think will help us and help our people compete in the world today.

**The Chair:** Thank you very much, Mr. Cardin. Your time is up.

We'll now go to the government side, to Mr. Menzies and, if time is left, to Mr. Cannan.

**Mr. Ted Menzies (Macleod, CPC):** I will try to keep my comments and questions short so we can have a short enough answer that Mr. Cannan can share my time.

I'd first of all like to share with this committee and get on the record that I have the advantage of being able to look out the window. I see the blinds are closed beside me, but all the time we've been sitting here—for three-quarters of an hour—not one black helicopter has gone by, so I think that's positive. There's a lot of fear-mongering here, and we don't see too much of the black helicopter that we've been hearing so much about.

Thank you very much for your presentations today. I do appreciate Mr. Gill's most recent intervention on the positive things that are happening.

I think we tend to forget that we are a trading nation. Our largest trading partner is the United States. We have to have a good relationship with them. We have to talk about security, and we have to talk about prosperity, or we're not doing the job that we've been elected to do. So I'm glad to hear that we are actually talking about the benefits to trade, the increase in the per capita GDP.

One comment was about average manufacturing firms having increased in size, that Canadian manufacturing firms have increased in size by 33%. Those are the positive things that we need to be hearing about. We've heard from many witnesses who have talked about the advantages and about how Canada can encourage more trade to create more jobs, to create more wealth in this country, to provide the increase in average disposable income that we need, and also to be able to continue this increase in the levels of government expenditures on health and education by 129%, or \$96 billion. That comes from commerce through taxation, and we need to keep promoting that.

Mr. Burger, there is one thing I would like you to clarify. We've had many people saying that the lower-income families are losing, and it wasn't in your written presentation, but you refute that. Can you provide perhaps, maybe not even now—

**An hon. member:** [Inaudible—Editor]

**Mr. Ted Menzies:** Excuse me, I'm talking.

Actually, I'm glad to hear someone say that, because we're hearing the opposite, absolutely unsubstantiated, and I would like you to be able to substantiate those numbers and get them on the record so that we don't have to listen to the unsubstantiated comments.

• (1150)

**Mr. Anthony Burger:** Thank you, Mr. Chairman.

Thank you, Mr. Menzies.

In 1997 the lowest one-fifth of households earned \$1,700—this is in 2004 dollars. By 2004 this had risen to \$3,000. Now, you can quote whatever fact you want, but in 1989 it was at \$3,400. So the recession of the 1990s led to a collapse of income for the poorest. It's not surprising, because the poorest were the ones who became unemployed.

We have seen a steady growth from \$1,700 in 1997; \$2,300 in 2001; \$3,000 in 2004—that's market income. When you put in the stabilizers—and this includes welfare payments, other transfers and the like—per capita income of households in the poorest one-fifth of the population in 1997 was \$11,800. It moved to \$12,200 in 2004. These are in 2004 dollars, so they've been adjusted for inflation. Again, in after-tax income, including transfers, the figure was a little higher, at \$13,200, in 1989.

What we have—and it should be of no surprise—s that there was a collapse of income for the poor in the early 1990s, and there's been a slow climb up. In May we'll have the year 2005, and putting my neck on the line, I predict there'll be a further improvement for the poorest.

**The Chair:** Mr. Cannan, go ahead.

**Mr. Ron Cannan (Kelowna—Lake Country, CPC):** Thank you, Mr. Chair.

Thank you, gentlemen, for your presentation.

In the presentation that was provided to the committee there was a quote that really stuck out in my mind. It says “the impact has been positive in terms of economic growth, employment, the range of economic activity conducted in Canada, per capita income, and the quality of life”.

The presentation regarding this Canada-North America economic collaboration and its effects on our economy, the industry, and the welfare and lives of Canadians is something that I had some discussions about with my constituents in my riding of Kelowna—Lake Country, doing some research. The average Canadian can pick up the newspaper. There was an article yesterday that said this trend towards globalization “has led to fears of a hollowing out of Canada's business sector in which head offices are packed off to New York or Boston or Atlanta with a subsequent loss of high-paying executive positions, investment, jobs and research in Canada—all adding up to a loss of economic independence.”

For the average Canadian citizen who reads that, or one of my constituents, how do I square off these two statements? Are we at risk of losing our independence, or is Canada-North America economic collaboration good for Canadians and Canada?

Mr. Burger, or whoever would like to answer that.

**Mr. Anthony Burger:** Thank you, Mr. Cannan.

Per capita, average family disposable income has risen by 7.7% over this period. You'll recall that five to 10 years ago people were complaining that per capita income had stagnated over the period of the early 1990s. Again, I say there's no surprise to that figure. We know that it was a difficult period of adjustment to the economy. The truth is that we're much better off now, and the process continues. Family disposable income has risen by 7.7% over the period since NAFTA started, and the bulk of that has been in the past five years.

•(1155)

**The Chair:** Go ahead, Mr. Cannan. You still have another three minutes.

Mr. Gill, you wanted to respond as well.

**Mr. Lee Gill:** If I could add to that, the one thing you point out is the economic independence. One part of the presentation that was made was, I think, extremely important, which is that we have to think of ourselves in terms of a North American bloc and we also have to think of ourselves in terms of a world trading bloc.

There are some adjustments occurring, and we realize that, but the reason Canadians are doing well, and the manufacturing.... Given that we've faced a huge increase in our exchange rate, energy prices have gone up, and we've faced enormous competition from emerging markets of India, China, Southeast Asia, the Eastern Bloc, and Europe too, we've done fairly well in that. We've maintained a manufacturing sector that is strong. Part of that is because they've reduced some of their economic independence. They're working out into the world. They're getting parts from China or other places and using them in their production process.

That's the way we really need to think of the future, in terms of working around the world, working as global supply chains, rather than as an independent economic bloc.

**Mr. Ron Cannan:** Thanks.

And I have one supplemental question. You talked about sustainable prosperity, and another issue that's very near and dear to my heart and to my constituents is the environment and a sustainable environment. How do you see working with our partners in this agreement so that we might be able to find some North American solutions to deal with global warming and climate change?

**Mr. William Crosbie:** The rationale behind working with the U. S. and Mexico is that increasingly we find that we have issues to discuss among ourselves. Those issues, the first of the line, will be ones where we have a shared environment. So the transboundary environment, but also the environment that includes the three countries, is a natural area for cooperation. The environment ministers are meeting, I believe, in June for their next trilateral session.

So the environmental aspect of the work that goes on through the environment ministers, which is referenced in the SPP, is an important component. It also has to be done in connection with energy and in connection with the economy. So again, those are both areas where the three governments have a lot to discuss to make sure that North America is an efficient place to produce. We've seen, for example, that to the extent that our borders are not efficient, to the extent that creates another cost to doing business between Canada, the U.S., and Mexico, it reduces the incentive for people to produce things here in North America.

One of the key goals of a process like the SPP is to ask ourselves, when we are making changes or looking at our regulations or looking at other areas in which the government is involved, are we doing things in such a way that it enhances the competitiveness of being based in North America? Or are we creating a problem for people to actually produce things and services here on our continent?

**Mr. Ron Cannan:** And technology, as well. So I appreciate that.

Thank you.

**The Chair:** Thank you, Mr. Menzies and Mr. Cannan.

Now to Mr. Julian.

**Mr. Peter Julian (Burnaby—New Westminster, NDP):** Thank you, Mr. Chair.

I'm glad the Conservative Party's personal medium has said that everything is okay in this country and that the poor aren't poor.

But let's get back to reality. You did reference the growth in marketing for the poorest of Canadians, and you did reference—I'm not sure Mr. Menzies caught the reference—that the actual fact is that for the poorest 20% of Canadian families, their income has declined in real terms, when we talk about constant dollars.

In 1989, \$13,600 was the average real income in constant dollars for the poorest of Canadian families. And that descended to \$12,400. So they're actually earning about a month's less income than they were in 1989.

Let's move on to the next 20% of the population, because you have said there is a small minority of people who haven't prospered, but I think we're seeing that it's at least 20%. There we go to those families earning \$20,000 a year to \$36,000 a year: their average income in 1989, in constant dollars, of \$29,900 went down to \$28,500. So they've actually lost two weeks' income.

Let's go to the next group of families, earning \$36,000 to \$56,000 a year. Their income in 1989 was \$48,100, the average in constant dollars, down to \$45,900. So again they've lost more than two weeks' income. It's like going two weeks without a cheque.

Now let's go to the fourth group. Now we're up to 80% of Canadian families. No change in that income group.

So 80% of Canadian families have seen either no change or their income actually fall since 1989. But if we look at the elite, the wealthiest of Canadians, their average income went from \$121,000 up to \$136,000.

What we're actually looking at is a huge and growing prosperity gap, where 80% of Canadian families are actually earning less, and

that has to be part of the analysis and the discussions that you have about our trading strategy. If it hasn't worked for 80% of Canadian families, there is something fundamentally wrong with the bottom line.

During that same period, overtime has gone up over one-third, as you all know, and at the same time we've seen, as Statistics Canada tells us, that most of the jobs created today in our economy are part-time or temporary in nature. There's no secret why incomes are falling. It's because people are going from one temporary job to the next. They're trying to group together a couple of part-time jobs to make ends meet.

So my first question is this. We have this growing prosperity gap. We have very clearly, since 1989, a fall in real income for most Canadian families. How are you addressing that within the ministry?

● (1200)

**The Chair:** Mr. Burger, go ahead.

**Mr. Anthony Burger:** The first thing to point out is that we had the worst situation in 1993, with respect to all of the statistics Mr. Julian is quoting. At that point, unemployment was 11.4%. In 2006 unemployment was 6.3%, and that was the lowest level in 30 years.

If you look at the statistics, as I mentioned in my intervention, it's obvious that people who are unemployed are going to be the ones not earning as much. Therefore, it's the poor who rely heavily on transfer payments. They're the ones in the bottom quintile, and they're the ones who will be hurt first when unemployment hits.

In my current job, I have to stress that I'm an analyst rather than a policy-maker. But I think the policy response of the government has been to ensure that economic growth was restored, and one of the vehicles for doing it was NAFTA.

**Mr. Peter Julian:** The strategy has very clearly failed.

I appreciate the somewhat defensive presentation that you made. It's a good one because you're starting to deal with the issues that Canadians are talking about on main streets across the country. I appreciate it, and I actually enjoyed the presentation far more than I have enjoyed previous presentations from the ministry.

But the reality is that economically most Canadian families are earning less than they were in 1989. We have to rethink the whole thrust of how we can create good-quality jobs and how we will respond as a country to what has been, at the very least, economic stagnation for most families or economic degradation.

The answer that we can't have is more of the same or that we should go from NAFTA to NAFTA on steroids, which is what many are concerned about when we talk about the SPP. I appreciated the clarity of your presentation, but the fact is that there are a variety of agendas out there linked to the SPP, and each ministry is going through a different process of deregulation or reduced regulation.

My question is this. How do you pull it together? How do you track the legislation, the regulatory changes, and the deregulation that is taking place in so many areas, as you described, Mr. Crosbie? How does the ministry track it?

**Mr. William Crosbie:** The SPP is not designed to track an overall reduction in barriers or regulations or indeed an increase in barriers or regulations. It's designed to be a cooperative process in which government officials who are experts in particular fields can examine the ways in which we might together do something to achieve a shared goal that perhaps wouldn't happen if we didn't talk to one another.

For example, take an area like regulation, which could have health regulation as an objective or environmental regulation as an objective. One thing we'd like to ensure when we create those regulations is the way in which we do it, so that the regulation does not reduce the competitiveness of operating in North America.

For example, if you're going to require different label sizes on a product, the U.S. has its own requirements, as do we and as does Mexico. Each government has prepared its own particular regulations on the size of the lettering and what has to be in it. In and of itself, those are good things to do, but they can create a barrier or a cost to somebody who wants to produce a product for the three markets. If we could find a way to ensure that the regulations on labeling were somehow consistent so that a business person operating in either one of the three countries could more easily conform to those regulations, it would no longer become a barrier to the cost of operating in North America.

• (1205)

**Mr. Peter Julian:** It always goes one way. If Canada chose to have GM food labeling, we would not have Foreign Affairs and International Trade pushing the United States to adopt GM food labelling for their product lines.

But I'll come back to my question. Mr. Gill actually laid out a whole variety of accomplishments in terms of the SPP, if you want to consider them that. There is obviously a tracking process. You're aware of what is going on, what is being discussed, and what the regulatory changes or deregulation are. My question is, how is this tracked through the ministry?

**Mr. William Crosbie:** As I mentioned at the outset, our department has a role to play in terms of the communications side of the SPP. In terms of ensuring what we're doing, the SPP is situated within the context of our relationship with our two partners. Two other ministries have the leads on the specific pillars, but if you want to know how we track this, I'd encourage you to go to the website the Government of Canada operates under our auspices. It lists the specific working groups, what they're trying to achieve, and what the status is for the result they're trying to achieve. Similarly, if you look at the material that was produced at the time of the February

ministerial, it also looks at the specific work and results that have been achieved.

**Mr. Peter Julian:** What it doesn't provide are those specific regulatory changes, or deregulation. That is not provided there. That's why I'm wondering, in terms of the overall tracking, going beyond what is publicly available, which is vague, to say the least, where the tracking mechanism is on the details.

**Mr. Lee Gill:** Perhaps I could interject here just for a second.

Now, I'm not the expert on this, but we do have within our department a group headed by a director general that actually does cover off the SPP issues and affairs. He and his staff, I can assure you, track things in great detail. For this meeting alone, they gave me 11 questions and possible answers to them with respect to SPP. They're the ones I got that information from.

Although I can't state it for a fact, I would imagine it's exactly the same in the other departments that are involved in the process, such as Natural Resources, obviously. I do know that at Industry Canada we do have a significant group that is tracking everything with respect to us.

**Mr. William Crosbie:** If someone was interested in one of the working groups, in a particular result that they're seeking to achieve, the lead department is identified, and that department remains responsible for any of the changes Canada might want to make. The SPP itself is not the mechanism that makes those changes; it's the individual departments that have the responsibility in that policy area.

**Mr. Peter Julian:** Yes, I understand that, and you've made that very clear. And that's all—

**The Chair:** Mr. Julian, your time is up. You've had, in fact, over 10 minutes.

• (1210)

**Mr. Peter Julian:** I appreciate that, Mr. Chair.

**The Chair:** I'm just that kind of guy.

We do only have five minutes left, and I would like to ask some questions on behalf of the committee.

We are currently going through our report. We've already tabled the recommendations in the House as a separate report, but now we'll be including the background information with the recommendations and tabling a new report entitled "Ten Steps to a Better Trade Policy". I would like to read to you the last recommendation, because you, Mr. Burger, in fact, were one of the two witnesses who, in response to a question from Mr. Julian, made comments on the prosperity gap. This recommendation has been included in the report.

I'll just read this to you. Mr. Burger, I would like you to comment on what you meant when you were referring to the prosperity gap, on how you would define prosperity gap, and on whether you believe this recommendation reflects your comments.

Do you have the recommendation in front of you, Mr. Burger?

**Mr. Anthony Burger:** Yes I do, Chairman.

**The Chair:** Then I won't read it. Perhaps you would just like to comment on how you were defining prosperity gap, as well as you can remember, in response to Mr. Julian's question.

**Mr. Anthony Burger:** I'm not sure that I'm competent to answer whether this is an appropriate recommendation of the committee. I can comment, as I mentioned in my response to Mr. Julian, on facts rather than on the policies that should or should not be adopted by the government in order to respond to those facts.

I don't quite know what closing the prosperity gap means, unless it means that families in a particular subgroup should have the income level they had before or the share of total income they had before. The concern is really a policy one for government rather than something for a public servant to comment on.

Thank you, Chair.

**The Chair:** No, I was just asking about your testimony. You may not remember it. I understand that, Mr. Burger. You haven't been given a heads-up on this. You were one of the two witnesses who did comment in response to a question from Mr. Julian. I was only asking about your comment. I hope I wasn't asking you to comment

on the recommendation and whether you would support it or not. That's not what I intended to do.

**Mr. Anthony Burger:** Okay, what I would say is that according to the statistics that are available from Statistics Canada, the real household income of families has been recovering for those who experienced a decline in income in the early nineties. It has been recovering since 1997. My anticipation is that this process of recovery and movement into positive territory will be seen in the statistics for 2005, which will be released later this year.

**The Chair:** So in fact, the lower-income level group has been improving steadily. We don't have the information for 2007, obviously, or 2006, but you said that 2005 will be released fairly soon and that you anticipate the trend of improvement will increase or will continue.

**Mr. Anthony Burger:** That's correct.

**The Chair:** Okay. The committee will be dealing with this, and I just wanted to ask about that.

I would like to thank you very much, gentlemen. Our time is up. I do appreciate very much your input here. You demonstrate, gentlemen, something that certainly parliamentarians know and that I think Canadians know, which is that we have an excellent public service in this country. And I thank you very much for the service you provide.

We will take a couple of minutes now to go in camera to go over the report and to deal with the travel issues.

*[Proceedings continue in camera]*

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