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Chair

The Honourable Mark Eyking

Standing Committee on International Trade

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• (1135)

[English]

The Chair (Hon. Mark Eyking (Sydney—Victoria, Lib.)): Good morning, everyone, and welcome.

Welcome to our officials. As everyone knows, we're here to deal with Bill C-30.

Ms. Tracey Ramsey (Essex, NDP): Mr. Chair, I want to give notice of a motion that I'm going to be bringing forward. I'll read it into the record:

That, pursuant to the motion of Tuesday, November 1, 2016, adopted by the Standing Committee on International Trade to study the Comprehensive Economic and Trade Agreement (CETA), the study consist of at least 12 meetings;

That the Chair publish a news release on the Committee's website, inviting Canadians to submit their views on the CETA in writing; that the written submissions be sent to the Clerk electronically no later than December 15, 2016, 23:59 EDT; and that written submissions, once translated, be distributed to members of the Committee.

The Chair: Thank you.

We'll continue with our meeting.

Welcome, everybody. As you know, we're dealing with Bill C-30. This deals with the trade agreement with Europe, and there are officials here.

Thanks for coming and for waiting for us. As you know, the Hill works in mysterious ways and when votes come up, we have to go. Thanks for waiting for us and for coming here to do briefs and give us information on this agreement. Without further ado, we'll give you guys the floor for your presentation.

Mr. Verheul, you've been a very good negotiator over the years for us—

Hon. Gerry Ritz (Battlefords—Lloydminster, CPC): Let's give him a round of applause.

Voices: Hear, hear!

The Chair: —and we may need you for a few more years yet, with the way things look.

Go ahead, sir. You have the floor.

Mr. Steve Verheul (Chief Trade Negotiator, Canada-European Union, Department of Foreign Affairs, Trade and Development): Thank you very much, and good morning, everyone.

Mr. Chair and honourable members of the committee, thank you for inviting me to appear before you today. My name, as many of you know, is Steve Verheul. I am the chief negotiator for CETA. I am

joined today by Caroline Charette, who is the director of the CETA secretariat at Global Affairs, and Colin Barker, who is the deputy director in the CETA secretariat.

I am pleased to have this opportunity to discuss CETA with you today. We feel that CETA is a progressive and modern free trade agreement that will have significant economic benefits for Canadians across the country. This trade represents 60% of Canada's annual GDP, and one Canadian job in five is tied to exports. That's why we need agreements like CETA, especially during a time of rising protectionist, anti-trade sentiment in many parts of the world.

The EU is already Canada's second-largest trading partner and export market. CETA is expected to increase bilateral trade in goods and services, significantly fostering growth and employment on both sides of the Atlantic. Once implemented, CETA will give Canadians unprecedented access to the world's second-largest import market for goods. The EU's annual imports alone are worth more than Canada's entire GDP. Of the EU's more than 9,000 tariff lines, approximately 98% will be duty free for Canadian goods on the day CETA comes into force, with almost all the remaining tariffs to be eliminated once the agreement is fully implemented.

CETA also recognizes the increasingly important role that services play in global trade, and it will create a wealth of new business opportunities for Canadian service providers. CETA provides for increased freedom of movement for professionals and service providers in sectors such as information and communications technology and for professionals and service providers in other areas such as telecommunications, financial services, engineering services, and architectural services.

CETA will also open up opportunities for Canadian businesses in the EU's estimated \$3.3-trillion government procurement market.

This agreement sets new standards for trade in goods and services, non-tariff barriers, investment, and government procurement, as well as other areas such as labour and environment. In that regard, CETA incorporates guarantees to make sure economic gains do not come at the expense of the vital progressive elements of CETA.

CETA's preamble recognizes that provisions in CETA preserve the right of the parties to regulate within their territories for legitimate policy objectives such as public health, safety, environment, public morals, and the promotion and protection of cultural diversity.

We have maintained a high level of protection for investors while also bringing transparency, independence, and openness to investor dispute resolution procedures.

CETA will not lead to forced privatizations of public services. Canada has a long experience with the protection of public services in all trade agreements and is confident that CETA allows for full policy flexibility. Canada's trade and labour chapter recognizes Canada's and the EU's abilities to set their own labour priorities and levels of protection. It encourages high levels of labour protection and recognizes that it is inappropriate to encourage trade or investment by weakening or reducing the levels of protection afforded in labour laws and standards.

In CETA's trade and environment chapter, Canada and the EU also encourage high levels of environmental protection and have reaffirmed that environmental standards cannot be lowered in order to encourage trade or to attract investment.

With respect to the next steps, with the agreement signed at the Canada-EU summit on October 30, Canada and the EU now need to obtain their respective domestic approvals to implement CETA.

At the same time as the agreement was signed, a joint interpretive instrument was also issued by Canada and the EU. This instrument serves to clarify our shared understandings of some elements of CETA and will have legal value as an interpretive document in any future legal proceedings that might occur, in accordance with the Vienna Convention on the Law of Treaties.

• (1140)

The text of CETA and the joint instrument are what Canada and the EU and its member states have agreed to. You may be aware that the European Commission, the EU Council, and some member states have also made a number of unilateral declarations, but of course Canada and the EU have not agreed to any of those declarations.

In terms of next steps, first of all, starting with the EU, the European Parliament will now need to approve CETA. This requires a simple majority vote of 50% plus one in that parliament, and that vote is expected to happen as early as December 2016, although it could slip into January of next year. As a mixed agreement, CETA will then need to be ratified by all 28 EU member states, according to their own internal procedures.

However, CETA can be provisionally applied following approval by the Council of the EU and by the European Parliament. The European Commission and the EU member states have agreed that almost all of the agreement can be provisionally applied, with very few exceptions.

The only exceptions relate to provisions on investment protection, which is one part of the investment chapter, and investment dispute resolution and the corresponding provisions in the financial services chapter. This also affects portfolio investment and, under the intellectual property chapter, camcording.

Everything else will be provisionally applied, so all of the economically significant aspects of CETA will be provisionally applied. Provisional application of CETA will continue until every member state ratifies the treaty, which typically takes several years, based on previous EU agreements. Once all member states have ratified the agreement, Canada and the EU will take the necessary steps to bring CETA fully into force.

With respect to the CETA implementation act, it was introduced on October 31, and it will amend a number of federal statutes, including the Export and Import Permits Act, the Patent Act, the Trade-marks Act, the Investment Canada Act, and the Coasting Trade Act. The modifications are necessary in order to comply with Canada's obligations under the CETA.

The CETA implementation act also provides for reductions to Canadian tariffs and related mechanisms, such as tariff quotas, and it makes amendments in several areas, including trademarks and patents, coasting trade, and the review of foreign investment.

Following passage of the CETA implementation act, relevant departments will need to complete their regulatory amendments and, in parallel, provinces and territories will need to make their respective legislative and regulatory amendments within their jurisdictions. We have been working closely with the provinces and territories to bring CETA into force.

Once both parties have completed their internal processes, Canada and the EU will notify one another through an exchange of diplomatic notes, and then we will agree on a date for the entry into force of CETA, sometime early in 2017.

When it comes to provisional application, Canada's implementation of CETA will mirror the EU's. In other words, whatever they are not provisionally applying, we will not provisionally apply on our side. Provisional application will continue until all member states ratify CETA through their own domestic procedures.

Mr. Chairman, that concludes my opening statement. Thank you again for inviting us to appear before you today. We are happy to answer any of your questions.

Thank you.

• (1145)

The Chair: Thank you.

Before I start, I see that you have your team with you. I have a question for you. It's very complicated, as you mentioned, with so many countries, so when did your team start this whole process with the European Union? Was there a time when you all went over there and said, okay, now we have to start dealing with it? How long ago was it?

Mr. Steve Verheul: Do you mean from the very beginning?

The Chair: I guess so, yes.

Mr. Steve Verheul: Well, I was appointed chief negotiator early in 2009. We had our first meetings around April of 2009. Our first official full round with the Europeans was in the early fall of 2009, and we've been at it ever since. We've never really had a break throughout that period. It's been fairly constant all the way.

The Chair: Thank you.

We're going to start the dialogue with the MPs now. The Conservatives are going to start.

Mr. Ritz, you have five minutes. Go ahead, sir.

Hon. Gerry Ritz: Thank you, Mr. Chair.

Thank you, Mr. Verheul. Your team did an excellent job. It was world class, as always, Steve. Thank you so much for what you did. You look pretty good for a 29-year-old. I know that it has been a tough haul. I had the great opportunity to work with you, and I can tell you that you're one of world's best, and that's not just me saying that.

On part of your intervention, you talked about some of the member states that have made a number of unilateral declarations. Are any of those contrary to the spirit and letter of what the final negotiations will be?

Mr. Steve Verheul: Well, I think I would say that some of them get close to the edge of what was actually agreed. The text in itself is what represents the agreement between Canada and the EU, and that's what any dispute settlement panel will look at first and foremost.

The fact that they've done some unilateral declarations doesn't represent an agreement between the two of us, but the way that they've characterized some of those issues isn't exactly the same way we would characterize some of those issues, so within the coming weeks, we may put out some of our own thoughts on how those provisions should be interpreted.

Hon. Gerry Ritz: That was my next question. Have we made any unilateral declarations?

Mr. Steve Verheul: We have not, at this stage, made any unilateral declarations, but we are working on a plan to make sure that if a dispute settlement panel ever gets beyond the text and ever gets beyond the joint interpretative instrument and starts to look at some of those unilateral declarations, not only will the EU have a public point of view, but we will as well.

Hon. Gerry Ritz: This is going to come down to willing buyer and willing seller on both exports and imports to start the ball rolling. When the ISDS adjudication is not provisionally applied, how then will you make claims or counterclaims moving forward? Will they be simply on a case-by-case basis? The adjudication of the ISDS is sort of in limbo out there after the Walloons.

Mr. Steve Verheul: Right.

Hon. Gerry Ritz: How will that be handled? Because certainly, with unilateral declarations, there will be some concerns and some claims. How will they be handled?

Mr. Steve Verheul: Right. Given the investment dispute resolution process will not be in place until all member states approve, we will not be able to use that mechanism, and neither will the EU. At the same time, we do have the option of using the state-to-state dispute settlement process on particular cases.

• (1150)

Hon. Gerry Ritz: The WTO?

Mr. Steve Verheul: No. There's one in CETA as well.

Hon. Gerry Ritz: Okay.

Mr. Steve Verheul: We can follow that process. At the same time, we have seven bilateral investment treaties with member states that

are part of the EU, so we would still be able to use those during that period.

Hon. Gerry Ritz: Okay. There are clauses that we can use.

Timeliness is everything in moving this through. I'm also aware of some of the situations in Canada in the legalities of moving forward. There are 90-day consultation periods, so even once we pass the legislation, that 90 days kicks in and there are regulatory packages that have to be drafted. The European Union will move forward on theirs in December and January. Do they have that type of process, too, or are they done at that point?

Mr. Steve Verheul: They will be done in advance of us, as it currently looks—

Hon. Gerry Ritz: Are we looking at late winter or early spring if we get everything...?

Mr. Steve Verheul: I think we're probably looking at early spring, because we do have a different type of system. They don't have a process whereby they have legislation and then regulations that have to go through that long process.

We're trying to see whether there are any time-saving approaches that we can take for that process so we're not too far behind where the EU is. I think we have a joint interest in getting this CETA to enter into force as soon as possible, so that's what we're working for, but the EU, I think, will be ready before we are.

Hon. Gerry Ritz: Okay.

We've also committed to compensation packages, to transition monies or whatever it was, to the dairy sector. That has been announced. There's also one for the fish processing sector in Atlantic Canada. Do you know what the status of that is? That's not necessarily your shop, but it's part of it.

Then there's also the distribution of the imports of cheese and how that will be handled. I know that we had originally written in that 30% of new entrants had to have access to some of that.

Can you give us an idea of where those negotiations are at?

Mr. Steve Verheul: First of all, on the fish issue, there was a negotiation, as you will recall, between Newfoundland and Labrador and the federal government. There was a tentative agreement reached, which subsequently couldn't be put together in its entirety. There are still outstanding promises that have been made to Newfoundland and Labrador and, in fact, to the other Atlantic provinces as well. We have had a number of discussions on that, and the Department of Fisheries and Oceans is now pursuing discussions with those provinces, I think starting first with Newfoundland and Labrador, so we are moving ahead on that. We're anticipating that it should not take too long.

On the issue of the allocation of the cheese quotas, we've done a very extensive consultation process. We have solicited input from all of those who might be interested in having a share of those import allocations. You mentioned that one of the requirements in CETA is that, for the CETA TRQs—tariff rate quotas—we have agreed with the EU that a minimum of 30% would be allocated to new entrants. They're aware of the existing WTO cheese tariff quota, and they don't want just the same players across the board. We've finished the consultations. We're now working on preparing some recommendations for the minister as to how the cheese tariff rate quota should be allocated, so that shouldn't be too far off in terms of coming out with a policy.

Hon. Gerry Ritz: That will likely play into the legislation moving forward.

Thank you.

The Chair: Thank you. We're going to move over to the Liberals now.

Mr. Dhaliwal, you have five minutes.

Mr. Sukh Dhaliwal (Surrey—Newton, Lib.): Thank you.

Thank you to the team. I would like to echo the comments made by Mr. Ritz on the work that you and your team have done, Mr. Verheul. Congratulations, and thank you.

You mentioned in your statement that CETA provides increased freedom of movement for services and professionals. In particular, being a professional engineer, I would like to ask you if you can elaborate on how it would help fellow professional engineers and architects moving forward.

Mr. Steve Verheul: There are two elements to the labour mobility package within CETA. One has to do with the temporary entry of independent professionals, contract service suppliers, and intercorporate transferees, who will have increased freedom to move between Canada and the EU in most cases. If, say, a Canadian company made an investment in the EU, they might want to move some of their people back and forth so as to manage that investment and have that own expertise. It's the same with architects or engineers. As independent professionals, they would be able to go both ways. That's the first element.

The second element is that we also have provisions relating to qualifications, so that if an architect, for example, is working and is licensed as an architect in Canada, we're setting up a process whereby they could become licensed to work as an architect in the EU as well. That's obviously going to be a long-term effort. The architects are actually in front on that and are making some good progress already. The engineers are not far behind.

Those are the two main areas of labour mobility in the agreement.

• (1155)

Mr. Sukh Dhaliwal: It would not necessarily help the bigger companies. When it comes to small and medium-sized firms, do you think it will make a difference?

Mr. Steve Verheul: Yes, we think it would make a large difference, particularly in those smaller companies. A lot of the larger companies can easily manage different operations in different places. Small and medium-sized enterprises have less flexibility in

what they're able to do, but they will want to be able to move back and forth to be able to take advantage of the opportunities in the EU market. Particularly if you're operating as an individual architect, for example, you can get some contracts in the EU, and you want to be in a position whereby you can fulfill those contracts without any other hoops or requirements that you have to go through.

Mr. Sukh Dhaliwal: Thank you.

I come from British Columbia. When it comes to CETA, how will it particularly help British Columbians?

Mr. Steve Verheul: British Columbia was very actively engaged throughout the negotiations. They had a lot of interests. Obviously, fish and seafood was one of the interests. They had some agricultural interests. They had a lot of interest in some of the services that are of particular importance in British Columbia. They saw some significant opportunities in research and development and in some of the government procurement elements as well. Really, I think they saw some opportunities across a fairly broad spectrum.

Now, as you will well know, British Columbia is often looking not necessarily towards Europe but more towards the Asian market, because of geography, but they started to see an increasing number of interesting opportunities in the EU.

Mr. Sukh Dhaliwal: Thank you.

The Chair: You have one minute left.

Mr. Sukh Dhaliwal: When it comes to British Columbia, would there be regional pressure on the ports and the infrastructure? If so, what kind of improvements would you like to see happening in the near future?

Mr. Steve Verheul: I'm sorry. Increasing pressure on the...?

Mr. Sukh Dhaliwal: On the infrastructure and the ports.

Mr. Steve Verheul: On the infrastructure side, I think it's working both ways. We certainly have advantages that we can provide to Canadian infrastructure providers, but at certain levels, the EU will be able to compete on a number of the tenders that might be issued. We've found that the EU often has technology or expertise that we may not necessarily have in Canada, so we can expect that they will play a particularly useful part for us when it comes to infrastructure as well.

What was the other issue you mentioned?

Mr. Sukh Dhaliwal: It was the ports.

Mr. Steve Verheul: We've been speaking quite a bit to all of the ports. Given that the most likely route of travel and the first access to Canada would come more from the east than from the west, I think the Port of Halifax and the Port of Montreal are quite interested in the kind of elevated traffic that they're going to get as a result of CETA. We've seen less of that, to be honest, in the ports in British Columbia.

The Chair: Thank you, Mr. Dhaliwal.

We're going to move to the NDP now.

Madam Ramsey, you have five minutes.

Ms. Tracey Ramsey: Thank you.

Thank you so much for being here today and for being available to us in other ways as well. Obviously, it's a huge agreement and we have a lot of questions.

The last time CETA came to the committee, the NDP and the Liberals called for a study to assess the financial impact of the increased intellectual property protection of patented drugs in Canada and on the provincial and territorial health care systems and prescription drug costs. Has the department done any such analysis?

• (1200)

Mr. Steve Verheul: At this point, we haven't, and the main reason we haven't is that we're finding it very difficult to conduct that kind of analysis, mainly because the types of changes we will see with the changes to the Patent Act, particularly for the additional two years of protection, are not likely to kick in until the agreement has been in place for probably eight years or so—at least for the majority of the changes.

That means it's really impossible to predict whether there will be blockbuster drugs coming through at that point, whether there will be more biologics, and whether there will be more niche drugs that are going to have smaller but more targeted markets. We don't know what pricing policies may be on the drug side by that point, particularly in relation to comparisons between brand-name drugs and generic drugs. We have found that, at least at this point, it is very difficult to come up with any kind of clear prediction.

The other element I will add is that there are also, as I'm sure you're aware, some ongoing efforts to modify or reform the domestic system as well. The work that Health Canada is doing with the provinces on health care programs is likely to reduce some of the costs overall.

Ms. Tracey Ramsey: Second, there was also a call at committee for the government to inform Canadians about the possible increases in prescription drug costs. Is there a plan in place to do that?

Mr. Steve Verheul: Do you mean a plan to inform Canadians?

Ms. Tracey Ramsey: Yes.

Mr. Steve Verheul: Again, I think we want to make sure.... This would be more for Health Canada than it would be for us, but I think that if we can anticipate that this is going to happen, we would certainly want to give people a heads-up. I think the problem at this point is that we don't really know. With the combination of what is happening between provinces and the federal government on health care agreements, that will affect prices.

We've found in our analysis that the price impacts of what would happen in CETA aren't necessarily all that relevant, because the price of drugs in Canada is already higher than it is in France, or the U.K., or Germany, even though we're a much smaller country. Also, those countries don't have an additional two-year period of protection. They have an additional five-year period of protection, but our prices are higher.

Ms. Tracey Ramsey: I think the concern is the coupling of the transfers that will happen to the provinces next year with the increased costs for drugs.

My next couple of questions are around the court system, the ICS. I don't see any language laying out the appellate mechanism. Could you comment on when we'll see these details?

Mr. Steve Verheul: Yes. We deliberately didn't entirely complete the appellate tribunal system when we completed the negotiations, partly because we wanted to see how this would develop over a period of time, and we wanted a bit more time to be able to think about how this might function.

There have been an increasing number of discussions internationally with other countries about how an appellate mechanism could work as well, so I think we have a fair amount of time to start working on that, although we'll be starting very soon. Given that this will not be provisionally applied, we probably have a period of at least a couple of years to work all of that out.

Ms. Tracey Ramsey: Along that line, Belgium and Wallonia have already said they won't accept the ICS, but if we get to a point where the EU member states are successful in removing this provision, will we then see legislation tabled to remove it from Bill C-30?

Mr. Steve Verheul: If it were to be removed entirely—and obviously a lot of things would have to happen before that happened—first of all, that would have to be an EU decision. Member states can't do it individually. If the EU came to us and said that they wanted to remove that system entirely, then we'd need to have a discussion and a bit of a negotiation at that point.

They've shown no indication of intending to come to us with such a proposal, but if we're going to change something down the road, whether it's in this area or in any other area, we'd need to have a negotiation first, see where we land, and then see whether there are required changes in any legislation coming out of that.

Ms. Tracey Ramsey: But if they came with that as a precondition for ratification—

The Chair: We're going to have to move over to the Liberals. I'm sorry, but your time is up.

Mr. Peterson, you have the floor.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thank you, Mr. Chair.

Thank you for being here today, Steve. We're happy to have you here, and congratulations from me as well. I know that you've worked exceptionally hard over the last seven years, and I know that our current minister and ministry and the previous ministers and ministry worked very hard to make this deal happen.

I'll take this time to congratulate Mr. Ritz, who of course was the agriculture minister at the time. He'll deflect that, I'm sure.

Congratulations to you, Steve, and to former minister Fast, of course, for the good work in getting us to where we are today, which is great. I think we now have to expeditiously get this in force and in effect so Canadians can start benefiting from this agreement.

You mentioned there are some time-saving processes or mechanisms that can truncate that 90-day window when it comes to the regulations and the approvals. Could you elaborate on what those might be and how we can implement them?

•(1205)

Mr. Steve Verheul: We're actually still in the fairly early stages of trying to determine what we can do. Most of the legislation is fairly straightforward, and once we get approval for the legislation from the House, we can move quickly through regulations. I would say that's for the bulk of the kinds of changes we have to make.

For some regulatory changes, there are built-in requirements for consultation processes, and in some cases those have specific timelines associated with them. We may have some built-in processes that we may have a hard time shrinking or compressing.

At this time, we're really trying to find some time savings wherever we can, so that we can move it through more quickly than we're expecting.

Mr. Kyle Peterson: Okay. In any event, it's good to know that it's being examined.

I want to talk a bit about the auto sector. Magna International is in my riding and employs over 4,000 people in my riding. I've spoken with them, and I speak with them regularly, of course, and they're excited about CETA. Do you share this optimistic outlook of the auto sector that CETA is good for the industry here in Canada?

Mr. Steve Verheul: Yes, we do, actually. Certainly, when we first started the negotiation, we did hear some expressions of concern that as we were lowering the tariffs it would be easier for exports of cars from the European Union to come into Canada. Our thought at the time was that it would more likely have an impact of displacing some of the other cars coming from other sources into Canada, but I think, as we found over time, from the auto part side, in many ways we tend to have more of an advantage than the EU does. On auto parts, we're expecting to be more successful than the EU. We have various companies that are already established in Europe, so it'll be easier to go back and forth in terms of the kinds of parts they're selling there.

Even on the car side, we have received a number of inquiries with respect to investing in Canada, because those car companies would then be able to serve not only the U.S. market, because of our access to the U.S. market, but also able to go back and serve the EU market as well since our access will be open.

Mr. Kyle Peterson: Right. That's good. I think it's good for auto parts and also for the OEMs. I think it's a good deal for both sides of that industry.

What kinds of supports could there be through the department for small and medium-sized enterprises to tap into this new huge market? Obviously, if we don't tap into it, there's not going to be any help for any of our small and medium-sized enterprises here. What sorts of supports are going to be in place to make sure that we can take advantage of it?

Mr. Steve Verheul: That's a good question. From the perspective of trade negotiators, I think we're very much aware that we can negotiate the best agreement that there could be, but if nobody takes advantage of it, it's not worth very much.

Probably the most important part is getting it right in terms of giving the information that is needed, particularly to small and medium-sized enterprises, and helping them with any kind of advice

they might need or with further information about accessing the EU market. We're putting a lot of emphasis on that.

We have been putting a lot of attention and a lot of resources behind the whole notion of how we can gear up the Canadian industry to take advantage of these new opportunities into the EU, and that effort is focused primarily on small and medium-sized enterprises, because our view is that the larger multinational companies are able to take care of themselves. They know how the rules work. They have a lot of advice already in their system.

We will see the Trade Commissioner Service being much more active, both in Canada and in the EU, on these kinds of efforts. We will have plans by sector as to how we can encourage more companies to take advantage of the opportunities in the EU.

•(1210)

Mr. Kyle Peterson: Thank you very much.

The Chair: That was our first round. We will start the second round with the Liberals leading off.

Madam Lapointe, you have five minutes. Go ahead.

[*Translation*]

Ms. Linda Lapointe (Rivière-des-Mille-Îles, Lib.): Thank you, Mr. Chair.

I want to thank the witnesses for being here today. My colleagues and I appreciate their presence and their ability to help us clarify certain points.

A little earlier, my colleague spoke about SMEs. My constituency north of Montreal has many wonderful SMEs, including Raufoss Canada, a subsidiary of the Austrian-based Raufoss Group. A number of those SMEs could benefit from exporting. You and the minister must have met with or consulted a number of large businesses. However, did you consult SMEs before entering into the agreement?

[*English*]

Mr. Steve Verheul: Yes, we have, and are doing that in increasing amounts. Again, the larger companies are easy. We can talk to them easily. We know who they are. It's really the small and medium-sized enterprises that are going to represent the greatest gains we can get out of CETA, but only if we can give them the information they need, talk to them about the opportunities that will exist in Europe, and help them along the way to be able to look at a market that they may not have looked at before. There are some SMEs already in there. There are many others that we think could find some good opportunities in the EU.

[*Translation*]

Ms. Linda Lapointe: A little earlier, my colleague spoke about labour mobility.

You spoke more specifically about SMEs. You said that since they have less flexibility in terms of labour, they could benefit from labour mobility. What could you, the department and the minister, implement to help businesses that are able to transfer people?

[English]

Mr. Steve Verheul: It's part of an overall plan that we've been developing over the past probably six to eight months. It's really centred around an investment strategy, a trade strategy, whereby we're trying to look at all of the various potential interests into the EU and to, first of all, have some very targeted information that we can provide them and, secondly, assistance we can provide them, whether it's counselling or advice in the particular markets they might be interested in. This is something we haven't really done before to the same extent. Even when NAFTA came in, we didn't have an effort like this in place.

That's what we're focused on. We're trying to find ways such that, first of all, we can get a running head start into the EU market while it's open, as soon as it's open, and then make sure that we can get as much interest into the EU market as we can across the board.

[Translation]

Ms. Linda Lapointe: I'll certainly promote these factors to the businesses and SMEs in my constituency.

A little earlier, you spoke about cheese and quotas. This interests me since I'm from Quebec. I want to make sure that I fully understand what you said. You spoke of shares of import allocations and you said that 30% would be allocated to new entrants. What was the situation before and how will it change?

[English]

Mr. Steve Verheul: Right. For all of our previous tariff quotas on cheese—and there haven't been very many—we have always allocated them on the basis of the companies that existed. The WTO tariff quota is the largest one. Companies who are interested have been having allocations of that quota for a very long period of time. I think we've learned some lessons from that as to how we should go forward in terms of what we choose as far as an allocation process is concerned. That 30% of new entrants works well for us, I think, because it means that we can bring new people into that process.

We want to be sure that people wanting an allocation are active in the industry, so that they can actually help to grow the Canadian dairy sector at the same time, rather than having somebody looking to make some quick returns from an allocation but who may not have a stake in the industry. We're trying to connect it back to the dairy sector itself to the extent that we can.

All of that is directed towards getting as much value as we can within the dairy sector for the increased cheese that will be coming from the EU.

• (1215)

[Translation]

Ms. Linda Lapointe: Thank you. I appreciate your comments on the matter.

Mr. Chair, I believe my time is up.

[English]

The Chair: Thank you.

Ms. Linda Lapointe: I'm always on time. You know that.

The Chair: You're the only one. You have eight seconds before the time expires.

Ms. Linda Lapointe: I know I'm the only one. You have to learn about me. You have to learn something.

An hon. member: You're over your time now.

Voices: Oh, oh!

The Chair: We're going to go to the Conservatives.

Mr. Hoback, you have five minutes.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair.

Again, thank you, Mr. Verheul, and thanks to your staff. All the hours you've put into this are sure appreciated. Speaking on behalf of farmers, forestry workers, and people in Saskatchewan, I know that they're looking at this as an opportunity and are excited for sure.

One thing I'd like have a little more clarification on is the market imbalance in the agriculture sector. What is the definition of that? What is the process for defining what would be considered a "market imbalance"? How do you see this actually working?

Mr. Steve Verheul: A market imbalance? Are you referring to the safeguards?

Mr. Randy Hoback: Exactly. I mean the safeguards that they're saying they want in place. If they see this so-called market imbalance, again, define it. What does it look like? What would it trigger?

Mr. Steve Verheul: Let me give you a bit of context behind that first.

Mr. Randy Hoback: Sure.

Mr. Steve Verheul: In CETA, we negotiated an outcome that does not have any built-in safeguards of their own. There are no safeguards either way in any sector in CETA, but what we did do when it came to agriculture is that we preserved our right to be able to use the WTO special safeguard for agricultural products. We did not have an outcome that allowed the EU to use that WTO special safeguard for agricultural products.

This is something the Walloons were concerned about, because they saw it as unfair that we would retain the safeguard and they would not. In the discussions they had with the European Commission, what they were talking about was the WTO general safeguard, which applies to all products and is frankly not that effective for agricultural products. We and other countries have rarely used it for that. As part of that declaration, though, Belgium wanted to be able to look at what was coming in, see if there were these types of market imbalances, and see if that would provide the kind of evidence that would be required for the WTO general safeguard.

I'll be honest. I don't think we're too worried about that, particularly given the size of the access we have for pork and beef—which is where the concern is—into the EU market, which is generally less than 1% of their market. That's not going to cause real injury to their market, which is one of the requirements under the WTO general safeguard. They will certainly be doing their assessments and their economic analysis of the product coming in, but in terms of the tools they have, at least under CETA, to address that, there's not really anything.

Mr. Randy Hoback: As far as that goes, it just provides comfort to Belgium, but the reality is that because of the market size the impact would have a relatively small impact on the market or in terms of creating a distortions.

Mr. Steve Verheul: That's right.

Mr. Randy Hoback: Okay. Looking at the British situation with Brexit, of course, how do you see it unfolding? How do you see us in CETA dealing directly with Britain outside of CETA?

Mr. Steve Verheul: Well, it's going to be a long-term project, for sure. As you know, the U.K. has been a keen supporter of CETA throughout the process, including up to the signature and all of the discussions leading up to that. They've also indicated an interest in being a part of CETA, at least until they get through their article 50 process of Brexit in terms of the rest of the EU.

We fully anticipate that CETA will be in effect. The U.K. will be a member of CETA until they reach that point where they try to agree with something with the rest of the EU on the Brexit.

Even then, depending on what they end up agreeing on with the EU, there could be a possibility whereby we could simply transfer the CETA obligations to the U.K. and, in other words, save ourselves a lot of time on negotiating a full free trade agreement, and basically transferring CETA to an agreement that also exists between Canada and the U.K. It might need a few tweaks, but I think that would be relatively easy to do.

Mr. Randy Hoback: That goes back to the internal process in what I'm going to call a "separation", for the lack of a better word, between the U.K. and Europe and which treaties and agreements follow that separation and which don't. Is that fair to say?

• (1220)

The Chair: A short answer would be good.

Mr. Steve Verheul: Well, I'll try, but it's not an easy question.

The separation agreement is going to be immensely complicated. First of all, they have to work out exactly how close—or not close—they're going to be. Are they going to be part of the common market within the EU or are they not? Are they going to have a customs union or are they not? They have some 43 years of common regulations to start to unwind. The more they unwind those, the further they are from being able to easily access the rest of the EU market. It's going to be an incredibly complex negotiation, and it can go in a number of different ways.

We will be monitoring it very closely, and I think the crystal ball of figuring out when that's going to come together, given that they're not even going to initiate the process until sometime next year and it's a two-year process at minimum.... It is a long-term project.

The Chair: Thank you.

We're going to move over to the Liberals.

Ms. Ludwig, you have the floor.

Ms. Karen Ludwig (New Brunswick Southwest, Lib.): Good morning, and congratulations. Thank you very much to all of you for all your hard work. It definitely has proven very fruitful for all of us.

Mr. Verheul, you noted in your presentation that 60% of Canada's GDP is generated by trade, and that one in five jobs are linked to trade. There are more than one million small to medium-sized enterprises in Canada, yet only 41,000 report exporting.

I represent the riding of New Brunswick Southwest. We are deeply entrenched with lobster, fishery, wood products, and science. Of Atlantic Canadians businesses, 54% are micro-businesses. They generally have one to four employees.

Here's my question to you in my short amount of time: what are the plans or the strategies for helping the micro-businesses that have one to four employees take advantage of the tremendous CETA opportunities? That will be a regional concern for us.

Mr. Steve Verheul: Yes, right. It depends a bit on the sector. There is an overall approach, but it also depends on the sector.

If you're talking about the fish and seafood sector, there will be a particular focus on that and on helping the fish and seafood sector across Atlantic Canada to be able to access the EU market more easily. There's a likelihood that there would be some marketing effort across the Atlantic that is designed and focused specifically on the EU market so we can start to sell our products over there. There will be some internal adjustments being made to ensure that we can produce to the EU market in terms of the specifications and expectations they have. On the fish and seafood side, I think there will be a lot of attention paid to that, and we'll be in good shape.

For other areas in agriculture, for example, in New Brunswick, there will be a focus on that as well. That kind of sector will be given a lot of attention.

For anything outside the fish and seafood sector and agriculture, I think that will fall under this broader effort we're doing to try to address much smaller and medium-sized enterprises. We'll be getting the information out, telling them what they can expect in the EU market, and giving them guidance as to how to begin that process of exporting to a market that is quite different from the U.S. or the Canadian market that they've been used to.

A whole training exercise will be conducted, with a lot of promotion at the same time.

Ms. Karen Ludwig: Thank you.

The Port of Saint John is aligned with my riding. It is the third-largest port and the busiest port in Canada, and they are definitely making some significant changes with the structure of the crib system and the overall roll-on roll-off in terms of the ships. There are many who feel that since the U.S. is not a signatory in CETA there could be tremendous gains and opportunities for Canada as a springboard between the U.S. and the European Union.

How do you see that as an opportunity and how do you see us preparing on the infrastructure side for the increase in terms of rail opportunities to and from the ports and in trucking and others?

Mr. Steve Verheul: I think that's something that we need to put a lot of focus on, because the situation as we see it is exactly the way you've described it. We expect significant new traffic coming into Canada. It's largely going to come through the eastern ports. We want to make sure that those eastern ports are able to handle that increased level of traffic.

I think we have a real opportunity there, particularly for the ports, to see a lot more business coming through, but we have to make sure that we have the systems in place so that all of the connections to rail traffic or truck traffic are all established and we can operate that as smoothly as we can. I think that does require some improved systems, some improvements to being able to manage that as effectively as we can. We have heard from all of the ports, and they all see this as a significant new opportunity once CETA comes into effect.

• (1225)

Ms. Karen Ludwig: Thank you.

The last point I wanted to make is that our government is looking at a coastal strategy in terms of the horrendous situation where there could be a tanker accident. Most people don't realize that 97% of the tanker traffic is actually in eastern Canada, not western Canada. Was that part of the discussion in the CETA negotiations in terms of the increase in tanker traffic?

The Chair: A quick answer, please.

Mr. Steve Verheul: Yes, it was. We did make it clear that any tankers coming in from foreign countries, and in particular the European Union, would be subject to the same safety requirements and the same environmental requirements that we have domestically. If they fall short in any of those areas, there clearly would be action taken against those areas. This is within our waters and subject to our requirements to make sure that we're protecting our ports.

Ms. Karen Ludwig: Thank you very much.

The Chair: Thank you.

I'm going to move over to the Conservatives now.

Mr. Van Kesteren, you have the floor for five minutes.

Mr. Dave Van Kesteren (Chatham-Kent—Leamington, CPC): Thank you, Mr. Chair.

Thank you, Mr. Verheul, for being here. It's always great to hear what's happening and what your team has accomplished. These are exciting times. We've talked a lot about what the implications are and how some of these things are going to work their way through as we progress with this agreement.

I want to focus a little more on the actual signing and the implementation when this thing starts to happen, and specifically in regard to my riding. You're very familiar with my riding, so you know, for instance, that we are heavily agricultural, but we're also tied in very much with the auto industry. The other interesting aspect is the ethnicity that we have. We have a large Italian community in Leamington, and in the rest of the rural area, there's a large Dutch community.

What should I be telling my constituents to get ready for in terms of what kind of movement we may see specifically in southwestern Ontario, especially with the bridge nearing completion at about the time when this thing is going to start to happen?

Mr. Steve Verheul: Particularly from a CETA perspective, one of the things we've seen is that most Canadian businesses—I'm setting aside the large multinationals—have acquired a degree of comfort with the domestic market and a degree of comfort with the U.S. market. They're both understandable, and they're used to them. The European market is going to require a bit of extra effort, at least initially, because you're dealing with different people and, in some respects, a different system, so there has to be a bigger upfront effort made to position ourselves to take advantage of it, which is really what we need to do.

On the agriculture side, I think we're generally in pretty good shape. I think we know what we need to do. It's not all done, necessarily, but agricultural commodities have a long history of being effective in participating in export markets, so those, I think, we can deal with.

On the auto sector, I think we clearly have some challenges. We may have new challenges from the south, but when it comes to what we do with Europe, I think we have to get out of that North American mentality alone and start thinking about what we can do to export to Europe, both with autos and, more likely, with the parts side.

We anticipate, from our analysis, that we can have some real gains that we can make on the parts side. We can draw in more investment to Canada on the auto production side. All of that is going to take an effort, and not just by the industry players. We have to be working together with them from the government perspective.

• (1230)

Mr. Dave Van Kesteren: Will we see an increased flow of trade to the United States through Canada from Europe? If that's going to happen, should we perhaps be preparing some of the folks who have their roots in Europe to link a bit more tightly to the countries they come from?

Mr. Steve Verheul: I think that's good advice, particularly from the investment side, because I think we can expect further investment in Canada because of the notion that we now have access to the two largest markets in the world: the U.S. and the EU. Very few others have free access to both of those. When it comes to investment, we do want to make sure that it's viewed from the perspective as to what you can do in the U.S. market as well. Going back to cars, I think they're looking to make sure they can go both ways. I think the key will be the kinds of connections that are being made, as you mentioned, and that can facilitate making those connections much easier to turn into real business operations and linkages.

I would say, from that question, that you're thinking in the right direction.

Mr. Dave Van Kesteren: Thank you.

The Chair: We have to move on.

Ms. Ramsey, you have three minutes.

Ms. Tracey Ramsey: It's clear that the government is moving towards privatization of infrastructure, certainly with our roads and other pieces, but also potentially airports. With the ratchet clause that exists in CETA, if we put things into the private sector and realize, for instance, that at an airport this hasn't worked out and public safety was at risk, and we try to pull that back, what could happen under the ratchet clause in CETA?

Mr. Steve Verheul: Well, it's really not so much a question of the ratchet clause, if you're doing that. If you're deciding that something is going to be moved to the private sector and, as you say, the experiment is attempted, doesn't work, and you want to bring it back in—

Ms. Tracey Ramsey: You want to pull it back.

Mr. Steve Verheul: —the real barrier to that is whether you have to expropriate the private company that's doing the contract in the meantime. If you wait for the end of a contract, or if you provide payment on expropriation—which would not necessarily be a requirement of CETA, but there are domestic laws around this too—then there are implications. There is otherwise nothing preventing its being brought back into the public sector.

Ms. Tracey Ramsey: Is there potential for us to be sued under the ICS or ISDS if that provision ends up being approved in Europe, more so than under the ratchet clause?

Mr. Steve Verheul: Under the ratchet clause, I think it would be highly unlikely, because the ratchet clause isn't going to come into effect so much in investment dispute. They're going to be looking at whether anything was expropriated in that kind of action and whether the investor was being treated fairly, particularly in relation to other players in the sector, whether they be Canadian or from other countries.

Ms. Tracey Ramsey: If they felt they had been treated unfairly, they could use the ICS mechanism?

Mr. Steve Verheul: There's not really a provision for them to do that. There are provisions related to national treatment, most-favoured-nation treatment, and performance requirements. There are requirements for fair and equitable treatment. There are requirements against expropriation. Those are the kinds of challenges that we'd see in an investment dispute, not challenges related to the ratchet.

Ms. Tracey Ramsey: Okay.

There have been quite a few changes over the past year, and one of them is the interpretive declaration. What is the legal weight of the interpretive declaration? It sits as an aside to the actual agreement.

Mr. Steve Verheul: Right. It really goes back to the Vienna Convention on the Law of Treaties. I'm going to put this fairly simply.

Ms. Tracey Ramsey: I appreciate it.

Mr. Steve Verheul: It's not that you wouldn't understand it, but it would take me more time, I think.

The Chair: The time is almost up, so a quick closing would be good.

Mr. Steve Verheul: It's going to be even faster now.

The Vienna convention basically says that if you're a dispute settlement panel, you first of all look at the words of the texts. If there's any ambiguity in the words of those texts, you can look to

supporting evidence. The joint interpretive instrument is intended to be just that. It's an explanation of what the parties' intentions were when they concluded the negotiation, so it has that kind of legal weight such that any panel is going to at least have to consider what is said with respect to the intentions of the party in that document.

• (1235)

The Chair: Thank you.

It looks as if we have enough time to do two full rounds, and every MP will have had their questions.

We're going to wrap up.

Last but not least, Mr. Fonseca, you have the floor for five minutes.

Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.): Thank you, Chair.

Mr. Verheul, like the others, I'd like to congratulate you and your team for the success you've had. It has been great. I also want to thank you for your determination and your perseverance, starting back in 2009, as well as that of Mr. Ritz and Mr. Fast, the former ministers, and others in the previous administration and now this administration. It has been a long road, and I'm sure you're delighted that we're reaching the end and starting a new beginning, and that's very important: how long these agreements take to conclude.

This started after a recession in 2009 when we said, listen, we have to diversify and open up our markets, etc. Things changed. The economy got better stateside and things picked up in terms of our trade with the United States, and it would have been easy enough for us to pull back and say that we don't have to put so much focus on CETA, or to put on it the emphasis that we have.

I understand that a year or so ago, things were still unsure in terms of CETA. Can you tell me, through your office and your staff, as well as with the minister in particular, how things got going again? How did we re-engage? How did we push this forward to make it happen? Can you give us some insight into what went on behind the scenes?

Mr. Steve Verheul: Sure. To start with a bit of context, you mentioned the economic crisis and said that this was coming out of that. I think one of the driving forces we've had to help negotiate CETA—and I think this has cut across all governments—has been that we do have a very strong reliance on the U.S. market. Perhaps this is even more relevant now, but I think we do need to try to reduce that reliance, to some extent, by paying greater attention to other markets. The EU is a natural, because their values and their approaches are very similar to ours, and it's a large market of 500 million people.

There was this interest in diversification, which was an interest throughout the negotiations. We finished the agreement in principle in I think the fall of 2013. We finished the final text of the agreement a year later, in August of 2014, and then we had a very extended legal review of the text that took far longer than it usually takes, in large part because there were increasing concerns on the EU side about the investor-state dispute settlement mechanism.

The EU had been having particular difficulties with the U.S. on that question and had decided that they wanted to develop a new policy. When the Liberal government came into power, there was a strong desire on their part to also modernize the system of the investor-state dispute settlement. That took a while to negotiate out. We had some concerns about the EU proposal, so we did have a negotiation on the new improvements that we talked about.

That put us in a position where we could then sell CETA, not just because of that provision but because of the labour and environment elements and others, as a modern and progressive agreement, even more so than before. I think that helped to get it across the line at the end of the day.

Mr. Peter Fonseca: You spoke about the United States also with regard to TTIP. Are you monitoring TTIP? Do you monitor where they're at? We have this competitive advantage now, and I think that right now, when the iron is hot, we have to strike and use this to our full advantage to attract business and to increase our exports. Can you give us more insight into where you see TTIP and how far out that would be if it would ever come to fruition?

Mr. Steve Verheul: Obviously, we do have a strong interest in TTIP and how that's developing. I've talked to the EU TTIP negotiator on a number of occasions about how things are going. We've certainly been looking at information coming from various other sources.

There are large gaps between the EU and the U.S. on that negotiation, and there have been for a very long time. There have been issues of ambition, with differences on that front, and

differences over particular areas. The EU is looking for much more in government procurement. There are issues such as geographical indications. The U.S. is adamantly opposed to some of those. Also, the problems on regulatory standards have been difficult, so they haven't progressed all that far, I would say. There are still some fundamental differences of view. Now, with the incoming new U.S. administration, I think those problems will be even more difficult to get around.

I think the best-case scenario is probably that the TTIP negotiation will be parked for the time being, and it is unlikely to progress a lot more, at least for the near future.

● (1240)

The Chair: Thank you.

Your time is up, Mr. Fonseca, and that ends our program.

Thank you, Mr. Verheul and team, for being here. I know that your team has worked hard over in Europe and here in going back and forth, and we really appreciate the work you're doing. It's a challenging time for trade in the world, and we're going to need your help going forward. We're going to have a few more meetings on this topic, and we might have to draw from your expertise again. Thank you for coming.

We're going to break for a couple of minutes, folks, because we have some in camera future business to do.

[Proceedings continue in camera]

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