HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

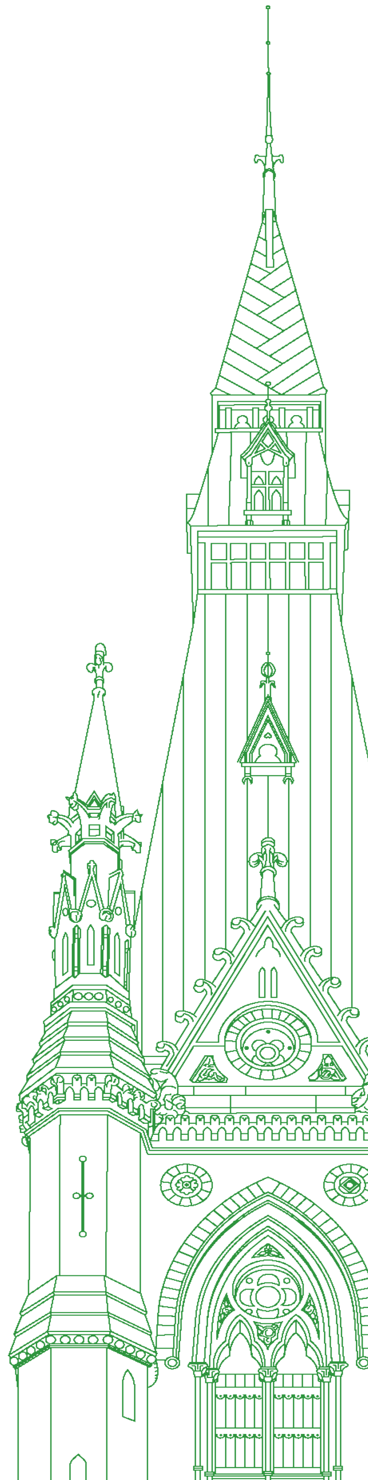
43rd PARLIAMENT, 1st SESSION

Standing Committee on International Trade

EVIDENCE

NUMBER 011

Wednesday, February 26, 2020



Chair: The Honourable Judy A. Sgro

Standing Committee on International Trade

Wednesday, February 26, 2020

● (1245)

[*English*]

The Chair (Hon. Judy A. Sgro (Humber River—Black Creek, Lib.)): I call to order the Standing Committee on International Trade.

We are meeting today, pursuant to the order of reference of Thursday, February 6, 2020, on Bill C-4, an act to implement the agreement between Canada, the United States of America and the United Mexican States.

Welcome to all the members. I appreciate your finding the time over your lunch-hour to come for this important meeting.

The witnesses today from the Department of Foreign Affairs, Trade and Development are Steve Verheul, the chief negotiator and assistant deputy minister, trade policy and negotiations; and Dr. Marie-France Paquet, chief economist at Global Affairs Canada.

Thank you both very much for finding the time to be with us today.

I will turn the floor over to both of you for your comments.

Mr. Steve Verheul (Chief Negotiator and Assistant Deputy Minister, Trade Policy and Negotiations, Department of Foreign Affairs, Trade and Development): Thank you, Madam Chair. I'll start.

First of all, thank you for the opportunity to appear before you again to discuss the economic impact assessment of the Canada-United States-Mexico agreement.

I am joined today by Marie-France Paquet, the chief economist at Global Affairs Canada. Before turning the floor over to her to present her assessment, I would like to provide some short remarks.

With respect to the context of the negotiations, since its implementation in 1994, the NAFTA has had a positive impact on the Canadian economy and has supported a stable, integrated and competitive North American market.

NAFTA has supported the development of an integrated and competitive North American market by providing manufacturers, producers, investors and consumers with a predictable and secure commercial environment. NAFTA has helped to generate economic growth and raise the standard of living for the people of all three member countries.

As this committee is aware, the modernization of the NAFTA took place at a difficult time in Canada's bilateral commercial relationship with the United States. When U.S. President Donald Trump took office in January 2017, he sought to replace NAFTA with a new agreement, under the threat of a U.S. withdrawal from NAFTA.

The U.S. administration then took the unprecedented step of imposing tariffs on imports of Canadian steel and aluminum on the basis of purported threats to national security, but with absolutely no legitimate justification for those measures. The U.S. administration had also launched a national security investigation that could have led to section 232 tariffs on Canadian autos and auto parts exports to the United States, also under the national security provisions and also without any legitimate justification.

Given this overarching context, Canada was presented with two options: first of all, to refuse to negotiate and risk the U.S. withdrawal from NAFTA; or secondly, to enter into negotiations to defend Canadian interests and modernize the agreement.

In this context Canada chose to engage in negotiations with the United States and Mexico towards the modernization of NAFTA.

I would like to underline that it is important to remember that preserving the status quo was not an option for Canada. The negotiating process was unique. Normally free trade agreement partners are looking to liberalize trade. In this process the U.S. goal from the start of the negotiations was to rebalance the agreement in its favour. The President continued to threaten to withdraw from NAFTA if a satisfactory outcome could not be reached.

In the face of this unprecedented situation, Canada undertook broad and extensive engagement with Canadians on objectives for the NAFTA modernization process. Ultimately we were successful in defending Canadian interests against extreme and unconventional U.S. positions.

The final CUSMA outcome preserves NAFTA's virtually tariff-free market access for Canadian exports. It modernizes and updates the agreement to support Canada's access to and integration with the North American economy, and it provides important stability and predictability for Canadian businesses and workers.

Importantly, and as a condition for moving forward towards implementation of the new agreement, on May 17, 2019, Canada secured the removal of the U.S. section 232 tariffs on aluminum and steel, returning these sectors to duty-free trade and removing a significant barrier to Canada's participation in North American supply chains. In addition, Canada secured an exemption from future U.S. section 232 tariffs on automobiles and auto parts.

I would now like to turn to my colleague Marie-France Paquet, chief economist of Global Affairs Canada, who will provide you with more detailed information on her team's economic impact assessment of CUSMA.

Thank you very much.

● (1250)

[*Translation*]

Ms. Marie-France Paquet (Chief Economist, Department of Foreign Affairs, Trade and Development): Madam Chair, honourable members, thank you for your invitation to appear before the committee today. In my capacity as the chief economist and director general of the trade analysis bureau of Global Affairs Canada, I am pleased to provide a perspective on the potential economic impact of the Canada—United States—Mexico Agreement, or CUSMA, as we know it in Canada.

Our role at the Office of the Chief Economist is to assess to the best of our ability the potential impacts of a trade agreement. We report the results of our findings in a document called the “Economic Impact Assessment”.

Our internal model is a dynamic computable general equilibrium model with 57 sectors and 140 countries and regions of the world. Such models allow impacts to feed into other sectors of the economy, and for those sectors to adjust over time. We can then evaluate potential impacts on production, exports, imports, and for the first time for a final assessment, the Canadian labour market. However, regardless of the degree of sophistication of our model, it remains a simplification of reality. This means that, unfortunately, we are not in a position to include all the gains from the negotiations in the model.

[*English*]

We approach every assessment the same way. We discuss and consult with all relevant parties within government to understand the provisions and determine what can be included in the modelling approach. This time is no exception.

The CUSMA negotiations were conducted in a very different context from CETA, the trade agreement with the European Union, and the CPTPP, where the starting point was no agreement and the result was a new free trade agreement.

For the task at hand, we had to consider what would happen if the United States were to withdraw from NAFTA, as well as the new agreement called CUSMA. The economic impact assessment is based on the final negotiated text.

The modelling results represent the potential benefits of NAFTA preserved by CUSMA, the avoidance of section 232 tariffs on the Canadian steel and aluminum industries, as well as the incremental impact of an implementation of the CUSMA outcomes.

CUSMA modernizes the agreement, making it easier for Canadian companies to benefit from NAFTA preferences. CUSMA also preserves NAFTA's virtually tariff-free market access for Canadian exports. It strengthens the integration of the North American automotive sector. It reinforces Canada's relative position as a competitive investment destination for automobile and auto parts production, and provides new market access opportunities in the U.S. market, while at the same time preserving Canada's system of supply management. The new agreement also modernizes provisions in line with Canada's more recent FTAs to help reduce red tape and protect the government's right to regulate in the public interest, including for health and safety.

These modernizations would make it easier for Canadian exporters to claim preferential tariff treatment under the agreement. The gains would, however, be partially offset by new market access into Canada's supply-managed sectors and more restrictive rules of origin in the automotive sector.

Some provisions under CUSMA would also help reduce policy uncertainty in certain areas such as services, investment and digital trade, and result in a positive impact on businesses. However, modelling such gains is challenging and relies heavily on the assumptions made. Therefore, these types of benefits were not evaluated in this study. Furthermore, many of these obligations have already been implemented by Canada under CETA and by Canada and Mexico under the CPTPP.

[*Translation*]

The modelling of quantitative impacts of CUSMA focused on modernized provisions in customs administration, trade facilitation and origin procedures, new market access provisions, automotive rules of origin, and data localisation commitments for financial services. These elements were selected for modelling based on the expected magnitude of their economy-wide impact, data availability and analytical feasibility.

● (1255)

[*English*]

The overall effect of the implementation of CUSMA on the Canadian economy is positive when considered against the consequences of a U.S. withdrawal from NAFTA. The implementation of the CUSMA outcome would secure GDP gains of $6.8 billion or 0.249% of Canadian GDP. With respect to autos, the outcomes are expected to incentivize production in Canada and North America, while leading to the sourcing of more expensive auto parts from within the region.

From a labour perspective, CUSMA secures nearly 38,000 jobs that would otherwise be lost if the United States withdrew from NAFTA, of which 18,708 are for men and 18,853 are for women.

In conclusion, the analytical findings resulting from the economic modelling suggest that the agreement's economic impact on the Canadian economy is positive when compared with the effects of an American withdrawal from NAFTA and the imposition of section 232 tariffs on Canada's steel and aluminum sectors. Importantly, CUSMA preserves Canada's access to the U.S. and Mexican markets and protects Canadian economic gains, jobs and income that would otherwise have been lost.

Thank you.

The Chair: Thank you very much.

We will go to the members for questioning.

Mr. Hoback, you have five minutes.

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

Thank you for bringing this forward. You know, I'm very disappointed; I asked for a chance to have a look at this last night so that I could at least consider it overnight. To have it dropped on us five minutes before the committee meeting is totally disrespectful of the opposition role that we have to play. I will make that protest loudly, right now. There is no reason this couldn't have been given to us last night.

When was this completed? When was this done and on your desk? I will be making an ATI request on that, just so you know.

Ms. Marie-France Paquet: We finished the English version yesterday at around 5 p.m. or 6 p.m.

Mr. Randy Hoback: So there's no reason it couldn't have been given to me last night.

Ms. Marie-France Paquet: I have to provide it in English and French. That's what took us a bit of extra time. We had 14 translators working on it yesterday to be able to provide it today.

Mr. Randy Hoback: I could have gotten it at two in the morning and would have read it. This is a big deal. This is $2 billion a day.

When were you empowered to take on this study? When were you told, “Okay, we have to do the study”?

Ms. Marie-France Paquet: I was not told to do the study. We always do a study. As you probably know, there's no legislative requirement to do so or to provide it, but we do it. We embarked on conducting the study at the conclusion of the agreement.

As I said, we do this by having discussions with the negotiating team at Global Affairs and other relevant government departments to make sure we understand the provisions.

Mr. Randy Hoback: Okay, but the negotiations were basically done last April. In fact, if you compare it with the TPP, we had the analysis on February 16, 2018, and then we approved it on June 14, 2018. This government wants us to look at it for five minutes and go and give them a blank statement.

We are going to approve it. We are. We recognize the harm if we don't approve it. We get that. But your comparison is with something not being approved—that is, if the U.S. pulled out. I was looking for a comparison with the old agreement and the gains in the new agreement. I was looking for the industries and sectors that would be negatively impacted so that we could have a proper game plan for them. The question was never whether the U.S. pulled out. That's never been the question. So why would you do an analysis against something that will never happen? Why wouldn't you compare it with the existing agreement and where we're going with the new agreement?

Ms. Marie-France Paquet: Because we strongly believe the status quo with NAFTA was not an option. Therefore, it was either going to be no NAFTA—

Mr. Randy Hoback: No, that's wrong—

Ms. Marie-France Paquet: —with the imposition on tariffs that were actually present at the time, to something different, which is CUSMA.

Mr. Randy Hoback: Again, in making decisions while sitting around a board table, I would have gone back to my senior management team and said this was unacceptable. Plus, for us to make a proper decision, we have to compare it with what we know, and what we know today. You cannot guess what the U.S. may or may not do. You don't know that. You're assuming that. It's a strong assumption. Maybe it's a safe one, but it's a strong assumption.

You know what you have today. You know what you have in the new agreement. You do an analysis to compare the two. In the new agreement, we gained how many jobs? Well, you can't do that. You're comparing it with no agreement. In the new agreement, how much is added to our economic activity? I don't have that here. In the new agreement, how much is gained in the environmental chapter? Again, you're comparing it with nothing. If I look at the C.D. Howe report, it's a $10-billion hit. It has negative effect on GDP. If I compare it with the TPP, if we'd done TPP instead of NAFTA, it's a $4-billion gain for Canada with the U.S. involved in TPP. So I look at this and say, “How do I take this information and actually give it an accurate assessment?" I can't. You didn't give me the right starting point. I go to the government....

We haven't played games here. We've said that we're going to pass it. We're going to move forward. But we need the information to do that properly. You haven't provided that. You haven't provided yourself with the information. That's really scary, because it's $2 billion a day. Yes, we're going to approve it. I guess, comparing it with nothing, we know that this is still a better way, but we've done nothing for the sectors that are left out. You haven't even identified them in your report. I'm wondering how I go to the Liberals now and say, “You need to be accountable to help the forestry workers. You need to be accountable to help the dairy workers. You need to be accountable to help the aluminum workers.” I have nothing to do that on, based off this report.

I don't mean to be hard on you, and I apologize. I know that you have your starting points and stuff like that. I'm sure there's a good political reason why you did it the way you did. I realize that you probably didn't make that decision—the gods above you did—so don't take that wrong. The reality is that if we don't have good data, how do we make good decisions? The reality is that right now we can't make a good decision based on this data. Which report do I go with? Is C.D. Howe more accurate or is the U.S. data more accurate? If you compare those with this here...wow.

● (1300)

Ms. Marie-France Paquet: I can speak with regard to the C.D. Howe and the USITC reports if time allows.

In the USITC reports, if you look carefully, there are probably three numbers, so three different scenarios. If there is no policy uncertainty reduction in the model, they have a negative for the U.S. economy of $22 billion. If there there is some reduction in policy uncertainty done in a certain way—and we can discuss that for a long time—then there would be a benefit for the U.S. economy of $68 billion. If there is a lot of reduction in policy uncertainty, you get $235 billion—I think that's the number.

C.D. Howe did not do any policy uncertainty, and we did not either. We know that it is good for business if we reduce uncertainty, but it's very hard to model.

The Chair: Thank you very much, Madame Paquet and Mr. Hoback.

Ms. Bendayan.

Ms. Rachel Bendayan (Outremont, Lib.): Thank you very much for appearing today.

I would note that in Mr. Verheul's opening comments he mentioned that Canada was presented with, I believe he said, two options. One of those options was the withdrawal from NAFTA, and the other one was the renegotiation, which resulted in what we now know as CUSMA.

We know that the impact of a U.S. withdrawal from NAFTA would have been substantial, and we know that U.S. tariffs were a reality. I know that my colleagues have often made reference to other private-sector studies, but I would like to point to something that the RBC said: "A 4% across-the-board increase in tariffs between Canada and the U.S.—roughly equivalent [to] a reversion from NAFTA to WTO tariff rates—could reduce Canadian GDP growth by about 1% over 5 to 10 years".

Your analysis in your report indicates a few qualitative and quantitative gaps, and that you weren't able to fully quantify investment-climate factors. That said, you do indicate the importance of this agreement, and I was wondering if you could speak a little more about how these factors would have impacted our Canadian economy.

Ms. Marie-France Paquet: If you look at the RBC study you're referring to and other studies by mostly banks, they would all point to an about 1% reduction in GDP should the U.S. withdraw from NAFTA. They are pretty much consistent.

The reason is simple. These are macroeconomic models, and they don't allow for what I explained at the very beginning. They don't have a lot of sectors in them. They might have two or three. They're very aggregate. They don't have the tariff changes in there. They impose a shock, and then you get a 1 percentage point reduction in GDP.

When you do it with a CGE model, the type of model we assess, you have 57 sectors, so when you make changes in tariffs, for example, then the sectors can adapt and workers that are having a harder time in that sector can move to another one. There is adaptation across sectors and over time.

Any studies by the banks that use macroeconomic models don't provide for that. They will point to very different results. So that's one thing.

In terms of the policy uncertainty and investments, there are certain things that we would have loved to take into account in the model because we do agree that a reduction in uncertainty is a good thing for business. That is partly why we took so much time; we redid all the analysis a few weeks ago to try to do it the way the USITC has done it and see what it would provide for Canada.

That was very difficult to do. We didn't have the model or the data *ex ante* before putting it in the bigger model. We even tried to take USITC's coefficient. We thought, "The USITC does good work. We'll take its coefficient and put it in our model and see that we get." We got results that did not make sense. We had an impact on Mexico that was much bigger than for Canada and the U.S.

So, there are other interventions done in the USITC report that I cannot explain just by looking at it. Even though it's 359 pages, I cannot tell you exactly what other interventions they might have made in the model.

● (1305)

Ms. Rachel Bendayan: I'll turn for a moment to the impact on job numbers and GDP, which were described as being protected by the agreement. I refer to the Bank of Canada governor, Stephen Poloz, who said that the threat of a U.S. withdrawal could lead to a chill in investment that would then be compounded, obviously, by additional tariffs possibly levelled against Canada by the United States.

Given that a U.S. withdrawal from the agreement was a real possibility at the outset of the negotiations, my question is for both Madame Paquet and Mr. Verheul.

How would you characterize the potential spillover effects of U.S. withdrawal on Canadian investment and Canadian jobs in particular?

Ms. Marie-France Paquet: In terms of investment, that's a very interesting question because if you look at the foreign direct investment flows into Canada and you go back to, say, 2017 and 2018—we'll have the data for 2019 shortly—we had minimal flows into Canada in 2017. It looked as if we might have said that we knew what was going on: the climate was not that great, but we had two major divestitures in the oil sector. Two Canadian companies were buying back U.S. companies, so it looked like an outflow of funds, when in fact it was a good-news story. So 2017 was a slower year on the whole for attracting FDI for that particular reason. Then 2018 was pretty good.

As a proportion of GDP, we attract a lot of FDI. From that perspective we're doing quite well. There might have been less investment during the negotiations and whatnot by businesses located in Canada, but on the whole we still saw good flows of FDI.

The Chair: Thank you very much.

We'll move on to Mr. Savard-Tremblay.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay (Saint-Hyacinthe—Bagot, BQ): Thank you for joining us to answer our questions.

I agree with my colleague in saying that it would have been good to receive these studies a bit earlier. We could have asked our questions based on more than a reading we just did. We understand that you have constraints when it comes to that. You could not have given yourself that mandate; it should have been given to you.

As you probably know, my political party, the Bloc Québécois, has raised a lot of concerns about the aluminum sector. Our initial concern was that this carbon-neutral aluminum, which is on the verge of making us proud and is at the centre of our innovation, would be threatened by Chinese dumping, through Mexico, of pollutant aluminum that is produced using coal most of the time, thereby threatening the expansion of several aluminum plants. Studies have also been done on this issue.

Unions shared our concerns. The industry did not share them as much, but it recognized that protection was not the same for aluminum as for steel. The government swore to us that there was no reason for concern.

However, this morning, an agreement was reached between the Bloc Québécois and the Government of Canada. I assume your study did not take that into account, as you conducted it before this morning's announcement. It was agreed that, without needing to reopen the agreement, monitoring of aluminum imports from Asia must be increased and that, if it was concluded that dumping was being done, the same protection given to steel would be given to the aluminum sector, with the same time frames the steel sector is benefiting from—seven years.

That solution was welcomed by unions. The fact that the government brought attention to our proposal indicates that our concerns were not completely crazy. Moreover, the fact that Mexico is now so angry indicates that there was probably an issue there.

I know that you have not had an in-depth look at that, but given this change, how do you view the impacts?

Ms. Marie-France Paquet: Thank you for the question.

Yes, receiving such an important document at the last minute is not ideal.

Concerning your question, it is unfortunate, but for steel and aluminum, we used as a benchmark *no NAFTA*, with tariffs from section 232. Tariffs existed, and that is why we have put them into the benchmark.

Before this morning's agreement, the negotiated and final text talked about a seven-year implementation. On the one hand, for various reasons, we were lacking specific data to put it in the model as built. On the other hand, we modelled the agreement in 2020—it was starting in 2020—and the impacts for 2025.

Normally, we go much further in projections. As there are many tariff changes, we want to give the sector an opportunity to adapt. Here, there are not many tariff changes, and we have decided to model the agreement up to five years. The agreement that was in the negotiated text goes beyond that. Even if I had that data, in this case, it would not have been taken into consideration. Data is lacking anyway.

As for this morning's agreement, I will let Mr. Verheul add something. As you said, we were not able to take that into consideration either.

● (1310)

Mr. Simon-Pierre Savard-Tremblay: Do you want to add something to this, Mr. Verheul ?

[*English*]

Mr. Steve Verheul: I have a couple of comments.

The issue of aluminum has attracted a lot of attention. We are certainly concerned about how things might develop as they go on.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Just a moment please, I have no interpretation.

[*English*]

Mr. Steve Verheul: Should I keep talking?

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: I hear it, but it is almost inaudible.

I hear you much better now. I'm sorry.

[*English*]

Mr. Steve Verheul: Thanks.

We've had a number of discussions on the aluminum issue, and I think you're certainly aware that we do intend to closely monitor the amounts of aluminum coming into North America, in particular to Mexico. If we do see significant quantities coming in, then we are prepared to take action.

I noticed a quote from the chief negotiator for Mexico saying that they thought that, because of the greater tightness of the rules of origin—it's now 75% North American content overall and then the 70% requirement for aluminum—they felt they would have to source from North American sources, which would amount to Quebec.

We're hopeful that Mexico and all the manufacturers in North America will be sourcing aluminum from Canada and from Quebec. If that's not the case, and we find that there is some deviation from that, we are prepared to take that case to our trading partners.

The Chair: Thank you very much.

We'll go on to Mr. Blaikie.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you.

I think it is important to start with an expression of some serious frustration that we didn't get this document earlier, not just earlier than this meeting to allow us to prepare for this meeting, but earlier in the process generally. That is why the NDP undertook to negotiate with the government to change the policy to ensure that, going forward, economic impact assessments are tabled coincident with ratifying legislation to give parliamentarians time to absorb this information. Then we'd be able to ask better questions and get some clarity on negotiation objectives and whom we're actually negotiating with, because sometimes that hasn't always been clear. I think those changes will serve parliamentarians well, but also members of civil society and Canadians who watch the trade file closely.

That said, I'm perplexed at the amount of time it took to prepare this document. Here I think of the U.S. having produced, not just a much longer document, but also, as we heard today, a document with a level of analysis we weren't able to duplicate here in Canada. I just heard that today. It's disappointing, I would say, because it's not as if the U.S. report was just tabled this afternoon. It goes back to April 2019. We knew what kind of analysis the Americans were undertaking. We had a signed agreement. Now it's changed. Democrats in the United States were able to succeed in making some improvements.

Am I to understand that Global Affairs hadn't begun work on a number of the...? I ask because there's a lot in the agreement that's the same between the two versions, the one that preceded the December agreement of last year and the December agreement itself. If most of the agreement is the same, and it is, then how is it that we could get to December—never mind December but February 2020—and not have most of that economic analysis complete?

● (1315)

Ms. Marie-France Paquet: Thank you very much.

In terms of the USITC, you're right: they issued their report around Easter weekend in April. On our part, we started the same thing, talking to the relevant government departments. I think the first department we had a lot of discussions with was the industry department to talk about the rules of origin in the automotive sector. That alone took us quite a bit of time, I can tell you. We did not start a month ago, that's for sure. We started a long time ago.

You are right that changes were implemented in December. We had a few discussions after that to ask if it changed anything. There are changes, and then the question is whether we can take them into account. For example, on IT, it's same thing. We're not able to take that into account in the model. You're right. We still had to look at it.

Mr. Daniel Blaikie: I have a further question, if you don't mind.

As negotiations proceeded, we certainly saw that things were changing after the signing of the first agreement, but even during the negotiation of the original agreement itself, it seems to me, looking at from the outside, that the negotiators aren't asking the economists in government to prepare any economic analysis while the negotiations are happening. So our negotiators don't have economic impact assessment data and analysis at their fingertips when they're deciding what they're going to agree to or not, on behalf of Canadians.

That seems incredible to me.

Ms. Marie-France Paquet: That's how it looks from the outside. I can appreciate that, but I've got the chief negotiator right here. He can tell you whether or he has found us to have been supportive or not, and I've had direct, let's say, requests from the deputy minister at the time about the rules of origin playing out like this or like that, or different things, and sometimes the emails or questions come in a bit of a cryptic way. Not to reveal too much on the negotiation side, but we've had discussions.

Mr. Daniel Blaikie: I'm glad to hear that there is some of that back and forth, but I am curious how that doesn't provide a sufficient basis for an economic impact study if that analysis is already being done as we evaluate items at the table and decide whether to agree or not. How is it not possible to collate a lot of that information into a kind of interim economic analysis or some kind of preliminary document that would help people here and across the country start the work of trying to understand what I'm glad to hear negotiators do already understand? You wouldn't know it by the quantity of information coming out of government.

That's where I'm perplexed. It's not just in the case of Canada-U.S. We know that our European trading partners do an economic analysis at the outset before they start negotiation about possible scenarios.

It's concerning to me that Canada doesn't appear to do that work, and if the work is being done, I don't understand why it's not possible to produce at least a version of something that could be released publicly to start providing some of that food for thought and to inform some of the discussions that happen, whether they're on the aluminum sector or on softwood lumber—you name the sector that's going to be affected. If the information is already there—and I hope it is and I'm hearing it is—I don't see why it isn't possible to release more information earlier on.

The Chair: Thank you very much, Mr. Blaikie. I'm sorry. I have to move on to Mr. Carrie.

Mr. Colin Carrie (Oshawa, CPC): Thank you for being here, Madame Paquet.

I'm upset and frustrated today, but not upset at you, if I come across a little upset.

In response the question by my colleague on what date you started working on this assessment, you implied to Mr. Blaikie that it's been going on for a long time.

Ms. Marie-France Paquet: Honestly, I don't know the date, but I took office in September 2017, and—

Mr. Colin Carrie: It was ongoing then?

Ms. Marie-France Paquet: Yes, we were working on this.

Mr. Colin Carrie: That's all I need. So it was there, and as Mr. Blaikie states, nobody around the table believes that the Prime Minister and the minister would sign on to an agreement without having some facts in front of them. You mentioned that this is a process you go through. Nobody politically says you need to do it; it's just something you do.

I want to look at your record and what you did in the past. The TPP was signed on February 4, 2016. You made the economic impact analysis of that available on March 16, so it was within a month. The CPTPP was signed on March 8, 2018. You had the economic analysis of that released on February 16, 2018, a month beforehand.

We're stumped because my colleague Mr. Hoback was asking the government way back in the spring to do a prestudy on it. By your own historic numbers, even if you take the date that we asked for this in December—but we didn't just ask for the full study, we just wanted advice and documents, perhaps the advice to the minister—we got nothing until literally 20 minutes before you're here.

We were told by the Prime Minister and the minister before the election, which was.... Okay, they knew what was going on here because the agreement for CUSMA was signed on November 30, 2018. So I would have thought with your bureaucratic processes, you would have had a really good idea within a month or two of what this meant for Canadians, and yet it wasn't released by the government. I wonder why this was held from Canadians before the election.

Do you have any idea why?

● (1320)

Mr. Steve Verheul: Let me respond to a bit of this.

I think in every free trade negotiation that we do, we do an economic analysis prior to starting the negotiation. We've done that in this case as well.

Mr. Colin Carrie: Absolutely. Mr. Verheul, I only have five minutes here. With this timeline I am outraged, okay, because in the past, historically, the Canadian government has done a good job of getting these documents out to Canadians. We had the C.D. Howe report. Again, I disagree with the premise of your analysis here. The C.D. Howe report said this is going to be a $10-billion hit compared with what we had before, which is $14 billion Canadian. It works out to about $1,500 per family.

We know that when this government started, there was an agreement in place. Here, I applaud Mr. Verheul. I think he's a genius as far as negotiations are concerned. The original TPP would have had a positive impact, $4.3 billion. Our Prime Minister decided not to sign it because it wasn't progressive enough. It was 14 months before Mr. Trump was even in office, and now we're being asked to rush this through, which is important. Even C.D. Howe said that if we didn't do this deal, it would be a hit to us even worse than this. I think they said $14 billion U.S., or something along those lines.

My comment is, why didn't we know? If this was signed in November 2018, we could quote the Prime Minister saying it's a win-win-win. It's a victory for Canadians. It's a better deal. They knew.

You didn't just start this analysis in December when we asked for it, so was there any direction to you not to provide documents to this committee?

Madame Paquet.

Ms. Marie-France Paquet: Thank you very much.

The difficulty in releasing, let's say, a teaser or advance notice on the numbers is that when you change one thing, it changes everything, because it's such a big model. That's why it is so difficult. When I said recently we decided to revisit the policy reduction uncertainty, if we had decided to put it in the final study, it would have changed the numbers completely.

Mr. Colin Carrie: I have 15 seconds. Like I said, if were able to do that with the TPP, if you were able to make it available a month ahead with the CPTPP—and in this case, CUSMA was signed on November 30, 2018—nobody believes that you could not have given any documentation to this committee. Nobody believes that for one minute. We're wondering why not. Why was this not provided to us before the election?

I'm going to have to leave it at that. That's the best I can do today.

I do appreciate your being here. I want you to know that I'm not upset at you, because I know you do a good job. I'm not upset at Mr. Verheul because he has done an amazing job—

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

Mr. Sheehan.

Mr. Terry Sheehan (Sault Ste. Marie, Lib.): Thank you very much.

I want to thank you for your good work and to underline and highlight your impartiality as bureaucrats, as opposed to being in a political arena. We are certainly sitting in a political arena now, I would note for the people who might be watching.

I note that during the negotiations, the C.D. Howe Institute, which has been referenced by my friends across the way, released a report stating that a potential U.S. withdrawal from NAFTA could cause Canadian auto industry exports to decline by $5.2 billion. Your researcher notes that you were not able to fully assess the auto sector, including the potential imposition of the section 232 tariffs. TD Bank notes, though, that up to one in five Ontario manufacturing jobs could have been at risk, plus additional supply chain impacts. You know I'm from the steel industry in the Sault.

Madame Paquet and Monsieur Verheul, how would characterize the potential impact on the auto sector, one, if the U.S. withdrew from the agreement, and, two, if the U.S. imposed tariffs on the auto sector?

● (1325)

Ms. Marie-France Paquet: Thank you very much.

The impact on the automotive industry would have been really bad. It would have been hit very hard, of course, as you know, without any number.... In terms of the number of jobs—and I stand to be corrected—I think it's about one-third of the 38,000 jobs that would have been...in the industrial sectors. Then from that you have the auto sector. A big chunk of what we've been able to preserve would have been in the automotive sector. From that perspective, of course, it's hugely beneficial.

Mr. Terry Sheehan: In my community of Sault Ste. Marie, the direct impact of the section 232 tariffs on steel was felt extremely hard. The situation faced in the negotiations was dire at times, and we felt the impact right at home. I've referenced that before. Not only was a U.S. withdrawal a real possibility, but the punitive tariffs on key sectors were felt in my backyard.

Are there some regions of the country that would have been the hardest hit by a U.S. withdrawal from the agreement, in your opinion?

Ms. Marie-France Paquet: We don't have a regional model. It's not a provincial or regional model; it's Canada as a whole, so I cannot tell you the impact on this province or that province out of the numbers we can provide. For that, you would need to model every province as a country with the internal trade challenges and then sum it up.

We don't do that, of course, but being in Canada, we know that some of the sectors are located in an aggregate way, if you will. It's not perfectly circumscribed, but that's what it is. The best we can do is to extrapolate from the numbers in one sector, and some of the sectors are spread out across the country, whereas others are more concentrated.

In the automotive sector, we say, “That's the hardest hit,” and you know where it hits at home, right?

Mr. Terry Sheehan: Very good, so there are about 123,000 direct and indirect steel jobs. In Ontario, there's Hamilton and Sault Ste.-Marie, but you are right—there are a number of small and medium-sized businesses across the way. Of course, I know that aluminum factors very prominently in Quebec, but we heard testimony from some people in the aluminum business down in Windsor.

I appreciate that effort. On behalf of the steelworkers, thank you to both of you for standing up for Canada.

The Chair: Thank you very much.

It's on to Mr. Lewis.

Mr. Chris Lewis (Essex, CPC): Thank you, Madam Chair.

I won't go into my disappointment because my colleagues have done a very good job at that, but you need to know, just like Mr. Carrie said....

I don't know if I'm disappointed or if I'm kind of blown away, because I've been part of a lot of trade deals, a lot of business deals over my time. Never have I ever come out of a business deal and said, “I think this is a great deal, but I don't really know how it's going to hit my pocketbook.” Never. It really makes absolutely no sense to me at all.

I believe you mentioned that you actually did have an impact statement done before this trade deal was done. Did I hear that correctly, Mr. Verheul?

Mr. Steve Verheul: Yes, we usually do some kind of analysis beforehand to project the potential gains or losses that could occur.

Mr. Chris Lewis: Thank you, and where is that paperwork?

Mr. Steve Verheul: In this particular case, given that it wasn't a new free trade agreement, what we did assess was the impact of the potential loss of NAFTA, which is what we were facing at the time. That was announced as it was completed.

Mr. Chris Lewis: So where is that paperwork?

Mr. Steve Verheul: We can certainly check on being able to provide that.

Mr. Chris Lewis: I think this committee deserves that paperwork, at the very least.

Would it be fair to say that the only way that you could make the numbers look good in this economic impact analysis statement would be to compare CUSMA to having no deal at all?

I'm trying to get through my brain what you're comparing this with, but I have to assume it's all about the numbers and making them look good. Is that a fair statement?

● (1330)

Mr. Steve Verheul: No, it's not, because we were comparing the reality we faced at the time, and that reality was the elimination of NAFTA and the imposition of tariffs on steel and aluminum, which happened. We were under threat that if we did not negotiate, NAFTA would be eliminated; the U.S. would withdraw. That was the reality of that path if we had not negotiated.

Instead, we chose to negotiate, and we ended up with the agreement that we have in front of us. The only relevant comparison, from our perspective, is between those two paths that lay in front of us. If we had not negotiated, that would be the world we'd live in—no NAFTA, tariffs on steel and aluminum, and most likely, tariffs on autos and auto parts.

Mr. Chris Lewis: Thank you.

For everyone, this is the U.S.-Mexico-Canada trade agreement, and this here is the economic impact assessment text that what we got today. This has been done since April 2019, and this text here is what we got 20 minutes before we arrived. I believe somebody is hiding something. I have to believe that.

The last point I'll make is that though I don't much agree with what the Prime Minister does on a lot of different things, I have to agree that there's enough intelligence there that he did have some kind of a statement in his hands to know if it was a good deal for Canada before November 30, 2018. God help us if he didn't.

Thank you, Madam Chair.

The Chair: We go on to Ms. Bendayan, for four minutes, please.

Ms. Rachel Bendayan: Mr. Verheul, your position as chief negotiator meant that you were not only on the front lines negotiating with the United States and Mexico, but also on the front lines here in Canada in discussions with industry leaders, businesses, chambers of commerce and numerous stakeholders, some of whom have come before the committee and told us the benefits of CUSMA for their industries and businesses. I wonder if what you heard on the ground here in Canada from industry is consistent with the chief economist's report and the information you see in the report today.

Mr. Steve Verheul: Obviously, we haven't received specific numbers from industry, but based on what they've been telling us across the various sectors that are most affected by the outcomes, certainly the results are very comparable to what we've encountered here.

I would like to clarify that, as I mentioned, we do an analysis before any negotiation. On the notion of doing macroeconomic quantitative analysis during a negotiation in the expectation that people would have that as input into a negotiation, that doesn't happen. No country in the world does that. No negotiating team in any part of the world does that kind of analysis to inform themselves.

We had a team of over 150 people working on this negotiation. They were largely economists. They know their issues. We spoke intensively with the sectors that were involved. That's where we got our information, along with our own analysis and expertise. But on the notion of constructing and following a quantitative model to guide us in the negotiation, no one does that.

Ms. Rachel Bendayan: Given, as we saw in reality, the changes that were put forward by other member countries in December, in your view, would it have been somehow detrimental to our national interests and our negotiating position to start releasing information before the United States and Mexico ratified the agreement?

Mr. Steve Verheul: That was the position that we took early on. We knew there was discontent within the U.S., particularly in the House where that they did not agree with elements of what the U.S. had negotiated and there were discussions actively taking place.

Mexico ratified it very quickly. The U.S. ratified it fairly quickly as well, but we knew there was still a negotiation going on. We had several issues that were of significant importance to us in that negotiation, particularly the issue of the date of the term for biologic drugs, which would have had a significant impact on us; the issue of getting dispute settlement processes that would actually work as a part of that as well; and provisions on labour and the environment. The negotiation was not done, so we saw little point in conducting a full economic analysis until the negotiations were actually completed.

● (1335)

Ms. Rachel Bendayan: Thank you.

The Chair: We go on to Mr. Savard-Tremblay for two minutes.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Thank you, Madam Chair.

Unfortunately, we were short on time. Mr. Verheul, I propose that you continue where we left off. You were telling me that there would be monitoring and a way to correct things in case of problems. Is that right?

[*English*]

Mr. Steve Verheul: Yes. Clearly if we do see imports of aluminum coming in in greater quantities than we've seen in the past, then we will be going to our trading partners to look for a resolution of that.

I'd also just mention that the U.S. still has its process under the section 232 actions under both steel and aluminum that if there are surges in either steel or aluminum imports, they do have, in their legislation at least, the right to impose penalties again, or reimpose those tariffs. So they are also monitoring imports of aluminum into Mexico.

We have a number of avenues we can pursue here and we are talking quite closely, in particular, with the U.S. about this issue.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Do you see the agreement between the government and the Bloc Québécois as progress?

[*English*]

Mr. Steve Verheul: I'm sorry, I heard “the gain between the Quebec government and the Canadian government.”

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: I'm talking about the agreement announced this morning between the Bloc Québécois and the Government of Canada to ensure the monitoring and apply the same conditions to the aluminum sector as those applied to the steel sector if there was an issue. Do you consider that to be a step in the right direction and a success?

[*English*]

Mr. Steve Verheul: Yes, I think that's exactly the right way to go. In our discussions with the U.S. as well.... The U.S. has set aside new funding to monitor aluminum imports into North America internally, so there's the notion of our monitoring what is happening on the aluminum front. If we start to see that aluminum is being brought into North America from China or other countries and undercutting Canadian sources, then we will be making proposals to the U.S. and Mexico to have aluminum treated on the same basis as steel.

The Chair: Thank you very much.

Mr. Blaikie, you have two minutes.

[*Translation*]

Mr. Daniel Blaikie: Thank you, Madam Chair.

I apologize for being unable to ask more targeted questions.

I am interested in the difference between the findings of your studies and those of C.D. Howe Institute.

Can you explain to us the difference between the methodologies or data used, which lead to two fairly different conclusions?

Ms. Marie-France Paquet: Thank you.

The study that was just published by C.D. Howe Institute presents certain hypotheses, on which we completely disagree. Two of those hypotheses have to do with rules of origin, one of which concerns chemical products.

[*English*]

Their interpretation of the study is that the new agreement makes it more restrictive, and the negotiators tell me that when you look at the provisions carefully, they do not. It is a big sector so it has a big negative impact. We don't agree with that. We think it's a mistake.

On the rules of origin in the automotive sector, what they have done is to say that we're going to increase the sourcing of the parts in North America until you meet the threshold of the content, regardless of the tariff, the MFN tariff, which you could decide to pay instead, so again, I do not think this is credible. Businesses are rational. They do want to maximize their profits and minimize their costs. The way we have done it—and the USITC has decided to do it as well—is to say that we are going to increase sourcing from North America, yes, up to a point where it might be easier just to pay the 2.5% in one direction and 6.1% in the other direction. We think this is more realistic.

Those are the two good examples that make it more restrictive in the C.D. Howe study, and that's why they have a bigger impact. Rules of origin in the automotive sector are a big driver of the results. We think those two.... There are other little things here and there, but those are the main ones that I would say we do not agree on.

Mr. Daniel Blaikie: Thank you. I look forward to the opportunity to take—

● (1340)

The Chair: Thank you very much.

Mr. Kram, you have two minutes.

Mr. Michael Kram (Regina—Wascana, CPC): Thank you.

I only have two minutes. The document you've produced is an economic impact assessment comparing the complete elimination of the old NAFTA versus the new CUSMA that we have now. Could you do an economic impact assessment comparing the new CUSMA to Canada's just staying with the old NAFTA in a business as usual scenario?

Ms. Marie-France Paquet: Effectively speaking, it's something that's possible to do, but this is not the situation we were facing, so that's why we decided to present the results this way.

Mr. Michael Kram: No, I appreciate that, but could you produce the document and provide it to the committee so that at least the Senate committee could study the matter before ratifying the final deal?

An hon. member: That's a good question.

Mr. Randy Hoback: Your forecasts are there. You just have to take the current data and apply it.

Mr. Steve Verheul: We do not see a lot of sense in doing that. There was—

Mr. Randy Hoback: I see a lot of sense in doing it.

Mr. Steve Verheul: You may, but there was no possibility for us to continue with the existing NAFTA, so a comparison between something that was not a possibility compared with something that we did end up doing is the relevant comparison.

Some hon. members: Oh, oh!

The Chair: Time is ticking on Mr. Kram's time.

Mr. Michael Kram: Okay, but it could be done, and it could be provided if you were directed to do so. Is that fair?

Ms. Marie-France Paquet: It depends on the timelines.

Mr. Michael Kram: Would it take a day, a week or a month?

Ms. Marie-France Paquet: Not a month for sure, but you need to change all the models, and that takes time. The model has—you won't believe me—140,000 equations in it, with 280 variables and it takes hours to run.

Mr. Michael Kram: Were you directed by the Prime Minister's Office or Minister Freeland's office to do the assessment the way you did it and not to compare it with the old NAFTA?

Ms. Marie-France Paquet: This was my initial proposal.

The Chair: Thank you very much.

The remaining two minutes go to Mr. Sarai.

Mr. Randeep Sarai (Surrey Centre, Lib.): Thank you. I'll be quick because I have two minutes.

First of all, have you been able to compare how much domestic gain might happen with...? For example, we'll be importing less from Mexico based on your report. Would that mean that domestic producers of certain things would gain from that? Has that been calculated? Or can we calculate that?

Ms. Marie-France Paquet: If you think about exports and imports, we do have the tables in the documents. If you look at tables 4 and 5, you would see the impacts by sectors.

Mr. Randeep Sarai: Would you see a domestic gain in a sector that doesn't have to import something? They would gain from sourcing it here. If we're importing $4 billion less in something from Mexico, presumptively we're getting that good from somewhere else. Could it be that we're getting it domestically because of the price difference due to this new negotiation?

Ms. Marie-France Paquet: It is possible, but you need to look at it carefully. If you have a hunch in a sector and you look.... There's a lot of intra-trade industry. In the same sector we export and we import, because it's the subsectors that vary. We have 57 sectors and there are a lot of subsectors in there.

I think you're right but I would need to look carefully, and to do that you pick a sector in which you think that might be the case, and you go deep down. You look at production and you look at the exports and imports pattern and how it changes.

Mr. Randeep Sarai: My second question is for the automotive sector. Would it be possible for you to into what vehicle part could have more production in Canada, for which the government could give assistance to increase Canadian sourcing so we could actually get a gain in that and accomplish the goal?

What sector, or what parts of a car, could Canada invest in and increase our domestic production of and thus increase our NAFTA trading zone?

Ms. Marie-France Paquet: It's basically the same thing. I do not have that information with me and I don't have it explicitly laid out in the study. For that, you need to look at the HS code in a very detailed fashion. Then you can consider it. I do not have that answer right now.

The Chair: I want to say a sincere thank you to our witnesses and to all our members for skipping their lunches and coming here because this was very important.

The meeting is adjourned.