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Chair

The Honourable Rob Merrifield

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• (1530)

[English]

The Chair (Hon. Rob Merrifield (Yellowhead, CPC)): I call the meeting to order.

We want to thank the department for being here again for a second hour. We look forward to your testimony.

I know you have some brief opening remarks, Mr. MacKay, so I will yield you the floor.

We are dealing with Bill C-24, concerning the free trade agreement between Canada and the Republic of Panama. We look forward to clause-by-clause on Thursday, so we look forward to your informing the committee concerning whatever questions we might have. I'm sure there will be a few.

The floor is yours, sir.

[Translation]

Mr. Cameron MacKay (Director General, China Trade Policy Bureau, Department of Foreign Affairs and International Trade): Thank you, Mr. Chair.

I am pleased to be here today to answer any additional questions you may have on the Canada-Panama Free Trade Agreement.

[English]

You will recall, Mr. Chair, that the last time we appeared before this committee we committed to providing exact figures in response to two questions. Members of the committee inquired about the unionization rate in Panama and the percentage of Canada's global trade that Panama accounts for.

I would like to begin today's session by responding briefly to those two questions.

[Translation]

With respect to the unionization rate in Panama, according to the 2010 Country Report on Human Rights Practices, which was published in April 2011 by the U.S. Department of State, approximately 17% of the workforce in Panama was unionized.

To put this into perspective, in 2011, the unionization rate across Canada varied from 23% to 39%, depending on the region. That same year, the U.S. Bureau of Labor Statistics reported that the unionization rate in the United States was 12%.

[English]

With respect to the second question, in 2011 Canada's bilateral trade with Panama represented 0.03% of our overall global trade. In considering this figure, it is important to recall that although Panama is a small trade partner, it is a dynamic and fast-growing market for Canadian exports.

Over the past five years, bilateral merchandise trade between Canada and Panama has increased by 105%, while Canadian merchandise trade with the United States, our largest trading partner, has decreased over the same period by 4.5%. It is in that light that, with the support of Canadian exporters and investors, the government agreed to launch FTA negotiations with Panama.

• (1535)

[Translation]

Finally, Panama currently represents our second most important export destination in Central America, only behind Costa Rica, with whom we already have an FTA.

Thank you, Mr. Chair. With that, my team and I would be pleased to answer your questions on this initiative.

[English]

The Chair: Thank you very much.

That is good information arising from questions at the last meeting that you are able to answer.

We now move to questions and answers.

Mr. Davies, you can start us off for seven minutes.

Mr. Don Davies (Vancouver Kingsway, NDP): Thank you, Mr. Chair, and thank you to all of the officials for being back with us.

Our bilateral trade with Panama represents 300ths of 1%. Is that correct?

Mr. Cameron MacKay: Yes.

Mr. Don Davies: Where does that put Panama in the ranking of countries who are our trading partners?

Mr. Cameron MacKay: I believe it ranks 84th.

Mr. Don Davies: Mr. Castonguay, I understand you testified before this committee in previous sessions.

In previous parliamentary hearings and debates, serious concerns were raised by a number of sources about Panama being a known tax haven. The practice of people sheltering money in offshore accounts with little or no disclosure requirements is estimated to cost countries around the world, including Canada, billions of dollars in lost tax revenue, and the taxpayers of this country as well.

What can you tell us about the state of tax secrecy or sheltering laws in Panama today?

Mr. Alain Castonguay (Senior Chief, Tax Treaties, Tax Policy Branch, Department of Finance): I can tell you that Panama in 2001 made a commitment to adhere to the international standard on exchange of information and as of a few years ago has started to negotiate tax treaties that contain that standard for exchange of information and tax information exchange agreements.

To the extent that there are secrecy laws in a country, a tax treaty or a tax information exchange agreement helps to overcome that secrecy, because the agreements provide that, notwithstanding incidents of bank secrecy, you have to provide information that is relevant for the administration of your own tax laws. I think a treaty helps to shed light, in fact, on people who might think that investing in those countries can subtract from their obligations in Canada to report their income.

Mr. Don Davies: If I asked you if Panama is a tax haven today, what would be your answer?

Mr. Alain Castonguay: We tend to avoid labelling countries. All I know is we're negotiating a tax information exchange agreement with Panama that is in accordance with the standards, and once it is in force it will help Canada enforce its own tax laws.

Mr. Don Davies: I know, or at least I'm advised, that countries like the United States and the U.S. Congress required there to be a tax information sharing agreement in place before they gave it preferential trade status, or signed a trade agreement and started letting investment moneys flow between the countries. It's the case, isn't it here, that Canada is doing the opposite, that before us in Parliament we're proposing to pass a free trade agreement with Panama before we have in place a tax information sharing agreement?

Mr. Alain Castonguay: I think the negotiation of those two things have been independent, yes.

Mr. Don Davies: My understanding is that Canada has not yet signed, including a tax information—

Mr. Alain Castonguay: No, we haven't signed yet.

Mr. Don Davies: Okay, but here we are today fast-tracking this. On Thursday the government wants us to move out of committee the Panama agreement. I think it's fair to say they have signalled that they want the Panama-Canada free trade agreement to be passed as soon as possible.

Would you say that it would be a prudent step for us to make sure we have a tax information exchange agreement signed and in place before we conclude a free trade agreement with Panama?

Mr. Cameron MacKay: Mr. Chair, I think the officials from the various departments really are here to answer technical questions with respect to the free trade agreement itself and the TIEA, of

course, but these broader matters of government policy I think are questions more appropriately raised with others.

The Chair: It's very wise to leave the politics to politicians.

Mr. Don Davies: Fair enough.

Do any of you have any information on the degree to which illegal transactions, say from drug cartel money, are making their way into the Panamanian banks? Did any of you study that, or get any figures on that as you were negotiating this agreement or giving advice?

● (1540)

Mr. Cameron MacKay: Maybe to provide a more general response, we don't have figures in that regard, and to my knowledge the Canadian government hasn't done particular studies. But we are well aware, of course, that Central America is a region now that's suffering very seriously from the narco-trafficking trade. It's a serious issue across the region, including in Panama. The Canadian government is working with other governments in that region to help deal with these issues. Frankly, I think it's widely known that where there are banks in the region, and there are certainly quite a few banks in Panama, there can be some money laundering going on as a result of that trade.

Mr. Don Davies: We know that a free trade agreement will increase and liberalize the flow of business and investment and money between the two countries. Is that a fair statement?

Mr. Cameron MacKay: Certainly, the idea behind it is that we will increase the flow of legitimate trade in goods and services, yes.

Mr. Don Davies: That's the goal. Now, is it possible that if we sign a free trade agreement with Panama, but Panama is still being used as a money laundering centre or a tax haven for illicit money, that some of that money could find its way to Canada? Is that possible?

Mr. Cameron MacKay: I don't see a connection between the free trade agreement and that issue.

Mr. Don Davies: Don't free trade agreements facilitate the flow of capital between the signing jurisdictions?

Mr. Cameron MacKay: There are financial services provisions to provide rules to allow Canadian financial services providers more predictability, transparency, and stability in terms of their doing business in Panama, but with respect to flows of capital back and forth and facilitating the drug trade, I'm not aware of a potential connection between the trade agreement and that—

Mr. Don Davies: Has that been studied?

Mr. Cameron MacKay: To my knowledge, it has not, not by the Canadian government.

Mr. Don Davies: I presume an economic analysis was done using the standard computable general equilibrium model. Is that correct? Was one of those done with Panama?

Mr. Cameron MacKay: No, we didn't. Because the trade with Panama is so small, as we discussed earlier—it's fast-growing but it's relatively small—we didn't do that kind of modelling for this agreement. Instead, we took the approach of consulting stakeholders, etc., across the country trying to narrow down to specific trade and investment issues and tried to negotiate around those. But we didn't do the broad economic modelling that you're referring to, as we've done with some of our much larger trading partners.

The Chair: Thank you very much.

Mr. Cannan, you have seven minutes.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair. Welcome back to the officials.

I just want to clarify the timelines. This was first introduced in fall 2010. In September 2010, I believe, Parliament started debating this free trade agreement.

Mr. Cameron MacKay: I believe that's correct. The agreement was signed in May 2010. The first implementing bill was introduced in the fall of 2010.

Hon. Ron Cannan: It's October 2012. In my records, that's about two and a half years. Do you consider that fast-tracking?

Mr. Cameron MacKay: I'm really not in a position to comment on how quickly Parliament moves or doesn't move on a bill, but it has been that long, yes.

Hon. Ron Cannan: I just want it on the record that we've had over 50 hours of debate on this and have gone through three ambassadors to this committee. I think it's important to reiterate why we believe that time is of the essence.

Could you enlighten the committee on the situation in the U.S.? When is their agreement anticipated to come into effect?

Mr. Cameron MacKay: We touched on this briefly last week. The United States Congress approved the U.S.-Panama free trade agreement in October 2011. President Obama signed it later that month. Our understanding is that the United States and Panama are now moving forward to implement that FTA as early as this month of 2012. The Panamanian congress is considering some final pieces of legislation in order to implement all the commitments it has made to the U.S. in that agreement. The agreement could come into force very soon. That's certainly the intention of those two governments.

If that happens, and tariffs will be cut for U.S. imports into Panama and not for Canadian imports into Panama, there could certainly be an effect on Canadian exports.

Hon. Ron Cannan: We've had a couple of witnesses, one being the pork association. Their representative stated how important it is, because it will be a trade disadvantage for the industry, obviously, if we don't get this agreement in place before, or at least at the same time as, the Americans.

One other witness was from MiningWatch. Their concern was from the environmental perspective. Maybe you could just enlighten the committee with respect to the side agreement on the environment and how that will change the situation. Obviously, industry wants to be more responsible. This will hold industry to be more responsible and accountable with regard to environmental concerns.

• (1545)

Mr. Cameron MacKay: Certainly.

Broadly speaking, the so-called side agreement on the environment is a high-quality agreement. It's along the model the Canadian government has negotiated with other recent FTA partners. It requires both parties, that is to say both countries signing the agreement, to have environmental laws, to implement them, and to enforce them. There is a so-called non-derogation clause that prevents either country from lowering its environmental standards to encourage trade or to attract investment. There are provisions on corporate social responsibility encouraging both governments to implement corporate social responsibility practices and policies. There are provisions for dispute settlement, etc. We're quite pleased with that agreement, and we think it will help.

Hon. Ron Cannan: We've heard from the opposition, who are not in favour of trade agreements, that it's only 0.3% of our overall global trade. My understanding is that Panama is the fastest growing economy in Latin America. It is anticipated to grow over 6% during the next five years.

Can you maybe elaborate on that 0.3% number and the potential increase in opportunities for Canadian businesses from this trade agreement?

Mr. Cameron MacKay: Again, as I alluded to in my opening comments, our trade with Panama is small, but it's dynamic, and it's growing. You yourself referred to the growth rates. I think you heard last week from representatives of the Canadian pork industry, for example, who see a growing market there. They are already exporting in the millions.

We've had other broad statements of support that I think the committee has heard in the past. And we've heard public statements of support from the likes of Scotiabank, Bombardier, SNC-Lavalin, etc., all of which see business prospects in Panama. Certainly those would be at a certain risk if there is a United States agreement with Panama and no Canadian agreement.

The trade is small, but it's growing. Frankly, I think the fact that Canadian exports are so dominated by our exports to the United States, which are very important, shouldn't lessen the importance of our moving forward and trying to diversify our trade with other strategic partners, such as Panama.

Hon. Ron Cannan: I have one last quick question.

With regard to the expansion of the canal, when we were there—the committee—a few years ago.... It's an engineering marvel. I'm just wondering if this agreement will provide any additional opportunities for Canadian engineers and expertise to capitalize and use our Canadian expertise on that specific capital improvement.

Mr. Cameron MacKay: One of our principal objectives in negotiating the FTA with Panama was to make sure that Canadian businesses all across the board had a level playing field with respect to their U.S. counterparts, in particular, given that we were negotiating at a time when the United States had already concluded its free trade negotiations with Panama.

Across the board, including with respect to the Panama Canal, for example, with respect to services and the government procurement provisions of the agreement, we achieved that objective of parity with respect to the U.S. FTA. So we believe that the government, through this agreement, has laid the foundation and opened the door for Canadians to do business in that market on a competitive basis vis-à-vis their competitors from other countries. Now it's up to those businesses to go and take advantage of those opportunities once the FTA is in place.

Hon. Ron Cannan: Mr. Reeder.

Mr. Neil Reeder (Director General, Latin America and Caribbean Bureau, Department of Foreign Affairs and International Trade): Maybe I'll just add a couple of points in terms of opportunities in Panama.

You're quite right, sir, that the current level of trade is small, but again, as you said, this a very dynamic economy and one for which the projected growth levels are significant going forward.

As a second dimension, just to follow up on Cameron's point on procurement, I have three quick bullets.

For the Panama Canal expansion, it's \$5.25 billion.

We also have the strategic plan with the Government of Panama for 2010 to 2014. The infrastructure projection is for acquisition in the area of construction of \$13 billion in new infrastructure projects, so we want to be positioned for that.

The final one of interest to our government is the new metro project in Panama City. Now that's really clogged with traffic. There's tremendous infrastructure going on, but they're not able to cope with the volume. They have to get people off the streets and into metro, and it's a \$1.45 billion project. As this table will know, Canada has excellent expertise in the metro sector that we would like to share with them.

Those are important opportunities for us, and we're looking to capitalize on these with a trade mission to Panama and South America in the coming months.

• (1550)

Hon. Ron Cannan: That would be Bombardier from Quebec, I guess.

Thank you.

The Chair: Thank you very much.

Mr. Easter, you have seven minutes.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair, and thank you for bringing the answers to the questions that were raised at the previous meeting.

Certainly 300ths of a per cent of overall global trade is not high. We do look forward to that increasing.

One of the reasons the question is asked is that you can be absolutely sure that if and when this trade agreement passes the House of Commons, the minister and the government propaganda machine will be talking about this as the most massive trade agreement ever signed. On this side, we get a little exasperated by

the exaggerations coming from the government's side, just so you know, because they're all about exaggeration.

I'd also like, though, to thank each and every one of you individually and collectively for your effort in trying to get the basis of an agreement negotiated. And if the House leader on the government side gives it some priority, I do think it will move along relatively rapidly. But it will be up to the House leader—and I say that to the parliamentary secretary to give this a priority.

The Chair: Do you have a question for the witnesses?

Hon. Wayne Easter: Ron talked about the pork and potatoes and other products in there. I do think it is critical in terms of where the U.S. is at.

What's the kind of timeframe in which the U.S....? If we don't have a signed agreement, or don't have the implementation, what's the timeframe we're looking at wherein we would look at the reality of being displaced in that market?

It's a huge issue for my province in frozen potatoes.

Mr. Cameron MacKay: Indeed, with respect to pork, for example, and I think you heard this from the pork industry representative last week, last year Panama imported \$4.9 million worth of pork from Canada, so almost \$5 million. With respect to the outcome of the U.S.-Panama agreement, broadly speaking there will basically be a quota, a duty-free quota, that will be implemented immediately upon implementation of the agreement. There will be duty-free access for U.S. pork into Panama, whereas Canadian pork exporters, if we don't have an FTA in place at the same time, would pay tariffs as high as 70%.

We have also negotiated a quota, so we would also be duty-free immediately upon implementation of the FTA, if Parliament approves it.

Hon. Wayne Easter: And when does the American part come into play? Do you know?

Mr. Cameron MacKay: We don't know that yet. We understand that the agreement could come into force as early as this year, but the Panamanian congress still needs to pass certain legislation in order to satisfy the U.S. This could happen as early as this month. So it's coming soon but we don't know the exact dates.

Hon. Wayne Easter: Once we do the implementation here through Parliament, does the Panamanian congress have to pass legislation to make ours doable?

Mr. Cameron MacKay: The Panamanian congress has already passed the required measures. They are waiting on Canada at this point.

Hon. Wayne Easter: So we're ahead of them in that regard and the Americans are behind us at the Panamanian end. Now it's up to us on this end.

When the ambassador to Panama was here there were quite a number of questions raised on the Panama Canal Authority. It's a huge project, and there are opportunities for Canadian service industries, Canadian construction, and so on. But is it not true that the United States has already sewn up the major procurement as it relates to the expanded Panama Canal?

• (1555)

Mr. Cameron MacKay: The information I have is that a Spanish-led consortium won the \$3.1 billion contract to build the third set of locks. I believe there were other consortiums. My colleague Mr. Reeder mentioned that the Brazilians have most of the contracts to build the expansion of the canal.

However, the canal is a huge infrastructure project and will require a lot of ongoing maintenance and repair. The Canada-Panama Free Trade Agreement would provide Canadian companies with a level playing field on which to compete for contracts.

Hon. Wayne Easter: Plus, I think there are other Panamanian infrastructure projects coming forward over the next decade.

Mr. Neil Reeder: Yes, indeed. I think our ambassador to Panama would probably tell you that the subcontracting opportunity is key for us. Those consortia are pretty big even by Canadian standards. What we're looking for is opportunities to subcontract within entities that are making and obtaining these bigger contracts.

EDC has opened up a regional office in Panama covering Central America and the Caribbean, so they are well placed to assist. Those are the kinds of opportunities we are looking for. But we are positioning ourselves now for the future. This economy is going to grow. The projections on infrastructure alone are significant.

I want to come back to one point: I represent a region where the majority of our free trade agreements are with the Americas. Now, if you put a Canada-Panama FTA up against a CETA or the NAFTA, of course you're not going to compare. It's comparing apples and oranges. We are dealing with smaller economies. We are looking for opportunities with the big economies, and we have FTAs with Colombia and Peru. We're talking to the Mercosur Group.

I think the trade will grow, and investment follows trade. The important point for the Canadian business community is that these are confidence-building measures. They give clarity, rules of the road, and opportunities for the Canadian companies. They make the investor community more comfortable going abroad.

It's also a "small p" political statement. We are building confidence and working with like-minded governments in the region, and we're establishing an extensive network of free trade agreements we can work with. So it is true that the numbers on trade are small now, but the potential is there. Much more important, they are also building confidence and opening up new investment opportunities.

The Chair: Thank you very much.

Mr. Wayne Easter: Thank you.

The Chair: Mr. Keddy.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Thank you, Mr. Chairman.

Welcome once again to our department witnesses. Although we'd love to have you back as many times as you're willing to come, of course, in the short time we have to put this to rest, we'll hopefully be moving onto other free trade agreements and other subjects.

There are a couple of statements I want to make vis-à-vis my good friend Mr. Easter's comments. I realize this is a smaller trade

agreement, and I think Mr. Reeder spoke quite well to that point. The \$111 million of merchandise trade that we do with Panama is extremely important to those businesses doing that trade. You can't expect, in a country the size of Panama, to compare it to larger trade agreements or larger trading partners. This is not China or Japan or the European Union or United States; this is a much smaller country, but it still has tremendous opportunities for Canadian businesses.

If we take that trade agreement...and, quite frankly, it needs to be stated, we've missed an opportunity here. We didn't get support in the last Parliament on this, or we would have had this agreement signed, and we wouldn't be talking about trying to catch up to the Americans in signing their agreement; we'd already be there. Our exporters, our experts in business and academia and all the sciences would already be there.

To make the comment about the Conservative Party crowing about free trade accomplishments...this is a huge accomplishment, and it's an agreement that should have been signed in the last Parliament had we had support from the opposition parties to do it. I'm not going to back down from that in any way, shape or form.

As to the comment that was made on the financial services, the reality is that if we get this agreement signed and in place, we'll have much more leverage to put on the Panamanians to sign a financial services agreement, and in particular a tax information exchange agreement. It's not about one or the other; it's what complements the initial push and what we want to gain at the end of the day. We want that exchange of information.

My question to our esteemed panel here—and I'll try to get off my statement here, Mr. Chair—is about trade and services. We have a chapter here on financial services. We're looking to enhance mutual market access and cross-border financial transactions. We're looking at mutual recognition of professional licensing and qualification requirements and the procedures to put all that in place, so we can look at financial services, information communication technology, environmental services—and energy services, which no one has even talked about yet. I mean, here's a country that's going to require huge sources of energy for refuelling tankers going through the Panama Canal and we are a net exporter of energy, so there's a great opportunity to take advantage of that.

In the trade and services area, and I realize it's difficult to make a projection of where that would lie, can you break down a little more finely some of those opportunities and the companies that are taking advantage of them now?

• (1600)

Mr. Cameron MacKay: Yes, I can elaborate a little bit on that.

Mr. Gerald Keddy: The preamble was a little rough, I know.

Mr. Cameron MacKay: Canadian companies and service providers, I think we all know, can be world leaders with respect to financial services, engineering, mining, petroleum extractive services, construction, capital projects and environmental services—those are some of the areas in which Canadian companies can be particularly competitive. Canada's trade negotiators are mindful of those strengths, certainly, when we negotiate our trade agreements.

Specifically with respect to this FTA, what we were able to achieve is to move Panama beyond the commitments it has already made to all of the members of the WTO, through its WTO commitments, and take additional commitments with respect to Canada in areas such as mining services, energy services, environmental services, and professional services, including engineering, architecture, legal, and information technology.

Also with respect to financial services, basically in that area and in the other areas that I just mentioned, we once again achieved parity with what the United States had negotiated with Panama. So we're quite satisfied again that we have opened the door for those potentially world-leading Canadian companies to continue and to expand their businesses in Panama on a level playing field with their principal competitors from the U.S.

Mr. Gerald Keddy: I think there are still opportunities in contracts, and especially some of the subcontracts, in the twinning of the Panama Canal.

But I want to go back to my original statement. There has been a lot of time lost. We have had three incarnations of this bill and we have not managed to get it through Parliament yet. It's been held up by the opposition at every opportunity. Now we have an opportunity for our opposition members to support this.

My point is this: when the Americans relinquished control of the Panama Canal they had had years and years of working with the Panamanians. The statement was made quite widely at the time that the Panamanians would never be able to run the Panama Canal. Well, you know what? They took over the Panama Canal, and they not only ran it, but they did a good job running it. Now they are twinning it with some outside help, and they will increase that trade there.

So why would we not expect them to be able to move forward on every other segment of their economy, and not be just an emerging economy, but a mature economy in Central America?

• (1605)

The Chair: Mr. Reeder.

Mr. Neil Reeder: I think you can look at Panama across the board and see they are positioning themselves almost like a Latin American Singapore. It's an entrepôt trade. It's trade in goods and services. They are a transportation hub; their airline now has four flights a week to Toronto and they want more. They are world leaders. We are very impressed by that little economy, and they are growing. That's going to create tremendous opportunities for us.

If I could, Mr. Keddy, come back to the trade mission, I do want to mention our sectors of focus for the next mission to South America and Panama: energy, transportation, water, and infrastructure. That's consistent with what we see as the near-term opportunities for Canadian business.

The Chair: Thank you.

We'll now move to Mr. Morin. The floor is yours for five minutes.

[*Translation*]

Mr. Marc-André Morin (Laurentides—Labelle, NDP): My colleague's comments are somewhat simple because certain things must be done quickly and others must be done properly. The only positive effect of the delay in this project is that Panama has come off the grey list. That is already an improvement. The Americans signed before us most likely because Panama gave them guarantees with regard to what could be done to share tax information.

The other day, the ambassador talked about the Panama Canal as a mature or almost mature project. One of the things being developed is the Panama Metro. Are those people improvising or are they making long-term plans? I am sure that, if they want to build a metro in Panama City, they have probably thought about it and obtained estimates from a number of businesses from around the world. Bombardier is not the only company involved. If an agreement is signed, that does not mean that Bombardier will automatically have the contract. There are other companies from around the world that may be much more competitive.

We should not be blinded by the opportunity for unrealistic contracts, as we have sort of missed out on the canal expansion. Had we been involved 10 or 12 years ago, when Panama was talking about expanding the canal and the initiative was still in a draft stage, perhaps we would be in a great position. However, I have a feeling that the project is now fairly advanced and the only thing left might be large crumbs, but crumbs nonetheless.

What do you think Mr. MacKay?

Mr. Neil Reeder: Regarding the canal figures, about \$1 billion is set aside for a project whose total cost will be over \$4 billion—which has not yet been confirmed. There are still opportunities involved in 20% of the canal projects or expenses. It is still a viable initiative, and is therefore worth our while.

We can also confirm that, based on the figures provided by the Panamanian government, in the 2010-2014 strategic plan, \$13.6 billion is earmarked for infrastructure projects, including the metro, ports and airports. That has been confirmed in the government's current plans and is guaranteed. So there is a great deal of potential for Canadian companies.

• (1610)

[*English*]

Mr. Cameron MacKay: Mr. Chair, perhaps I could just supplement that response a little bit.

The objective in negotiating and implementing the trade agreement is not for the Canadian government to get these contracts, of course, on behalf of Canadian companies. What we are trying to do is open the door for them and allow them to compete on a level playing field with competitors from around the world. We are confident that this agreement does that with respect to all of these potential infrastructure projects because of what we have negotiated in the services and the government procurement provisions of the agreement.

The Chair: Mr. Morin.

[Translation]

Mr. Marc-André Morin: What kind of a guarantee is there in the agreement that we will have preferred treatment once all those bids are made over the coming years?

[English]

Mr. Cameron MacKay: Broadly speaking, Panama, as a member of the World Trade Organization, now has commitments to all of the members of the WTO—a certain level of liberalization. Panama is allowed to go beyond that and provide preferential treatment to certain countries under free trade agreements, for example. They can negotiate those one by one and then provide basically extra, privileged, more liberal access to those free trade partners.

It has done so with the United States. The agreement is not implemented yet, but we expect that it will be soon. It has other certain free trade partners, mostly in the region in Latin America.

So the agreement that we have negotiated with Panama basically allows Canadian companies, if and when the agreement is implemented, to compete head-to-head with, for example, the U. S., or companies from other countries that have negotiated a privileged agreement with Panama, on a level playing field.

Let me just expand on that by mentioning—we haven't focused on it much in the committee questioning yet—that the European Union also, subsequent to Canada negotiating a free trade agreement with Panama, negotiated a preferential trade agreement with Panama and the other Central American countries. That was signed this summer. It basically is in the ratification process now in Central America and Europe and could also come into force soon.

So what we are doing is basically trying to provide a foundation so that Canadian companies can maintain the access they have with respect to their counterparts from not just the U.S. but the EU also.

The Chair: Thank you very much.

Mr. Holder, five minutes.

Mr. Ed Holder (London West, CPC): Thank you very much, Chair.

I'd like to thank our guests for coming back. You've brought reinforcements, I see. That's always a good thing.

I'd like to talk about the humble potato. We heard Mr. Easter speak in terms of some of the concerns.

Can you clarify, with respect to the humble potato, the areas that will benefit as a result of this free trade deal coming into force? Whether that's frozen or whether that's fresh...help me understand how you intend to defend the potato.

The Chair: That may be a political question, but I'll let you answer it.

Voices: Oh, oh!

A voice: That's a hot potato.

Mr. Cameron MacKay: That's a hot-potato question; that's right.

Certainly one of our objectives in negotiating the FTA was to improve our access, in particular for frozen potato products. We have negotiated so-called duty-free immediate access for frozen potato

products from Canada, meaning to say that if and when the FTA is implemented, the day upon which it enters into force Canadian frozen potato products will be duty-free in Panama.

Mr. Ed Holder: Okay. I appreciate that clarification. I think it's important.

I would like to focus on the potato, if I might, Chair, for just a moment, because if “bombasticity” was a word, I think my colleague from the third party might have his picture beside it. He talks about somehow this trade deal not being sufficiently important to justify the efforts that have been made by the people at this table today and others who are with you. He cites the fact that somehow that 300ths of 1%...which is still the 84th-largest trading partner of Canada, is some justification for us not putting in the kind of effort we had.

Well, I've done some research, and it might surprise you to know that the great province of P.E.I. represents some 0.42% share of the gross domestic product of Canada, a mere less than 0.5% of Canada's GDP. I would suggest to you that this does not denigrate my view of P.E.I. and its importance to Canada, and unlike some members opposite, I want to defend Prince Edward Island.

Some hon. members: Hear, hear!

The Chair: I knew it would get political.

Voices: Oh, oh!

Mr. Ed Holder: I'd also like to go a little bit further. Here's the other thing. I find this striking, and you might wish to comment or not. Obviously frozen potatoes are even something less than that 0.42% of gross domestic product that P.E.I. represents on behalf of all of Canada. It strikes me that I also want to defend the potato. It strikes me that if we want to do this right, if we want to defend the potato in Prince Edward Island, you have no choice but to proceed with this agreement.

Do you agree with that?

●(1615)

Mr. Cameron MacKay: Mr. Chair, I'm not sure I can answer the question exactly as it was stated. But I would note that Prince Edward Island's merchandise exports to Panama in 2011 were \$1.1 million, and they were led by frozen french fries and frozen potato products. If and when the FTA enters into force, the duties would drop. Current duties range as high as 20%, and they would drop to duty free immediately.

Mr. Ed Holder: So this would be a good thing for the P.E.I. potato?

Mr. Cameron MacKay: I think that would be a good thing for the P.E.I. potato.

Voices: Oh, oh!

Mr. Ed Holder: Then I feel somewhat better.

Mr. Reeder.

Mr. Neil Reeder: Well, I don't want to say that I frequent McDonalds restaurants in Central America, for fear that we're getting off track here, but I will say, having spent a lot of time in that region, that frozen french fried potatoes from the Maritimes are all through Central America, and having lived in Costa Rica for three years—as did Cameron, who succeeded me as ambassador in that country—almost all the McDonalds in that country are providing french fried potatoes from Canada. So this is an important market. It comes back to the point that the dollar volume may not be big, but farmers and farms and real people benefit.

In the case of Central America, we saw Canadian french fried potatoes throughout the region.

Mr. Ed Holder: Well, it may not be big, Mr. Reeder, but it's big to my farmers in P.E.I.

Mr. Neil Reeder: I'm from Saskatchewan. I hear you, sir.

Mr. Ed Holder: All right, then. I appreciate that; it was a very thoughtful response.

It's rather interesting too, because my colleague opposite is the only person I know on the planet who says that when another deal has been signed ahead of him, somehow he's figured out that it has put them behind Canada. I have to tell you, that's a very curious logic. Maybe it's just the singular logic of my friend, but it comes to the point: that to the extent that we don't get this deal in place now, we're already behind.

My colleague opposite from the official opposition very thoughtfully made the comment that we've lost out on opportunities on the Panama Canal because we didn't sign this deal before.

With no disrespect, because you weren't in this House at that time, I would say to you, sir, that it was your party that prevented us from putting the Panama Canal opportunity in place, because your party was the one, unfortunately, that went against putting this deal in place.

Is that a fair comment?

The Chair: I think you need to speak through the chair.

Mr. Cameron MacKay: Mr. Chair, I think I'd leave it to you to respond as to whether that's a fair comment or not.

The Chair: Well, I love the exuberance of a Cape Bretoner defending P.E.I.

Mr. Ed Holder: If Cape Bretoners don't defend P.E.I., who will? I ask you.

The Chair: Madame Papillon.

Mr. Don Davies: I'm just going to take the first thirty seconds of the five minutes.

The Chair: Is that what you're going to do—you're breaking your time?

[*Translation*]

Ms. Annick Papillon (Québec, NDP): I was not here during the previous Parliament.

[*English*]

Mr. Don Davies: This is only to point out to Mr. Holder, because I was present in the last Parliament, that he might remember that his

government prorogued Parliament twice, and the prorogation killed the Panama deal at least one time, and then of course the election came. So it's not entirely fair to say that any particular party held up this agreement, since it was his government that wiped this deal off the order paper by proroguing Parliament. Then we went to an election, of course.

I thought that point should be made lest the people who read the blues don't understand this.

Now I'll turn it over to Madame Papillon.

The Chair: That's an interesting “road through history” lane.

Go ahead, Madame Papillon.

[*Translation*]

Ms. Annick Papillon: It is important for my colleague to make these clarifications.

I would like to begin by thanking the witnesses for being here today and answering questions. Instead of asking a few questions on Prince Edward Island potatoes, I would rather like to ask some questions about the environment.

Unlike some other agreements, this one does not provide for any financial penalties if environmental regulations are violated. I would like to know why that is. We are wondering why there are financial penalties, but no environmental penalties. Are there any very specific reasons the department representatives could give me?

[*English*]

Mr. Cameron MacKay: Mr. Chair, it has been the Canadian government's approach in recent FTA negotiations to negotiate both labour and environment side agreements. These do indeed have different provisions, and I think that's because the government recognizes that there are different issues at stake.

I mentioned the environment agreement briefly earlier. The way it works is that both governments are committed to implementing their environmental obligations, to implementing and enforcing their environmental laws, and to not derogate from those laws and their enforcement in order to attract investment or increase exports. If a citizen of either country is unsatisfied with the implementation of that, a citizen can write to the government, and the government is obliged to respond and to make both the question and the response public. If that is not satisfactory, then there can be consultations between the two governments, between Canada and Panama, for example, about an environmental issue. Those consultations can rise to the level of ministerial consultations, and if those consultations still do not resolve the issue, then there can be a panel established and the panel can investigate and write a report, and the report is made public.

This is very similar to the agreements that Canada has negotiated with other FTA partners. So far, we have not seen any dispute between Canada and any of its other partners rise to the level of their being or their needing to be these kinds of consultations or a report struck.

Our approach instead is to try to work with the other government to help it implement its environmental obligations. Our experience has been that this kind of cooperative approach with respect to the environment is more appropriate and can be more successful than a so-called punitive approach.

The situation of labour, which we spoke about briefly at the last session, is different. The failure to implement obligations under the labour agreement tend to arise from different reasons. Therefore, we've negotiated a slightly different approach with respect to labour.

There are some similarities and some differences between the two agreements. The government is satisfied that this is the best approach with respect to those sectors.

• (1620)

[Translation]

Ms. Annick Papillon: You are confirming that we preferred using an approach that is more cooperative than punitive and that, as a result, in the negotiations so far, there are no penalties in terms of that very specific case.

[English]

Mr. Cameron MacKay: That's correct. There are no fines associated with a failure to implement the environment agreement.

[Translation]

Ms. Annick Papillon: Thank you.

Panama was promising the U.S. that it would sign a tax information exchange agreement for eight years. When it finally did sign that agreement with the American administration in November 2012, the agreement did not require Panama to automatically exchange information with American authorities on defrauders, money laundering activities or drug traffickers.

Mr. Castonguay, could you provide us with more information on the negotiations for a tax information exchange agreement? Will that agreement require Panama to exchange that kind of information automatically and, if so, how will it do that?

Mr. Alain Castonguay: Our agreement is based on the OECD model created in 2002. The vast majority of TIEAs are very similar in terms of that. In order to obtain information about a specific taxpayer, a taxing authority must ask the other taxing authority for that information, which would enable the requesting country to apply its tax legislation. In the case of a specific taxpayer, that information can be obtained only upon request.

If the other country's tax authority does not have the information, it is obligated to use the powers given to it under its legislation to request that the entity with the information—for instance, a bank—provide the information that will be sent to Canada.

[English]

The Chair: Okay. Thank you very much.

We'll now move to Mr. Sandhu as the last questioner for five minutes.

Mr. Jasbir Sandhu (Surrey North, NDP): Thank you, Mr. Chair.

I do want to thank my colleagues for providing a history lesson from the last Parliament, for those of us who weren't here, in regard to this agreement being left on the floor by the Conservatives when they prorogued the last Parliament.

Mr. Gerald Keddy: Two Parliaments ago.

Mr. Jasbir Sandhu: Two Parliaments ago.

I think the bigger question here is the role of this committee, of course, in scrutinizing trade deals, and also listening to witness experts, who provide input so that we can have the best treaty or the best trade agreement with other countries.

Mr. Chair, judging from what's happened over the last six or seven years, I don't think the Conservatives have a good record on trade policy. Under this government we had a trade surplus, and now it's a \$50 billion trade deficit.

• (1625)

The Chair: I'd ask you to ask a question.

Mr. Jasbir Sandhu: I am getting to my question.

We heard testimony in this committee, even today, that this region suffers from a chronic drug trade that's going on in Central America, and that various governments are working with Panama and other governments to somehow prevent this drug trade from going on in Panama or other countries in Central America.

I've heard testimony, but I'm not really clear. It's very evident that there is a drug issue in Panama. There is an issue around Panama being a tax haven. I haven't heard anything concrete or specific that took into consideration that there is money laundering going on, that there is a drug trade going on. What considerations did we take when we were negotiating this trade deal that would provide some assurances to Canadians that drug money is not filtering into Canada?

Mr. Cameron MacKay: Maybe I can provide a first response, and I know Mr. Reeder has something to add to it.

One of Canada's objectives in negotiating an agreement with Panama is to provide new economic opportunities for Canadians and Canadian businesses, etc. We've spoken about that to some extent. It's also to provide new economic opportunities for Panamanians. We're well aware of that. Basically, by negotiating these agreements, which are about transparency, predictability, stability, rule of law, rules-based trade, etc., we do think we're offering new economic development opportunities to that country, and that should, over the very long run, provide alternatives to the drug trade to the Panamanians who are currently caught up in that trade.

Now, with respect to whether there are specific provisions in the agreement that take into account issues to do with the drug trade, broadly speaking, there are rules about customs evaluation and trade facilitation, and customs cooperation, etc., but there is no chapter on drugs, narcotics trafficking, or anything like that.

That said, we deal with those issues separately on a bilateral basis, and I think that's where Mr. Reeder may have something to add about how Canada is cooperating with Panama with respect to the drug trade in the region.

Mr. Neil Reeder: My first point, sir, maybe just to clarify, is that no one sees Panama as a drug-producing country. Its geography makes it a transit country for drug trafficking; that may be true. And also, as has been mentioned, there is a risk that drug moneys move through the financial system, but that's not unique to Panama in Latin America nor the Caribbean. Panama shares a common geographic border with Colombia, and the Andean region—Colombia, Peru, and Bolivia—are the primary producers of the coca leaf, which is turned into cocaine. So by virtue of geography, Panama faces that challenge on its borders, and it's a problem endemic to Central America, which has become a major transit zone for cocaine moving north to North America and to Europe.

Our view, certainly in the Department of Foreign Affairs and with our other government department colleagues, is to try to work with these countries. We've got quite an extensive range of programs now to strengthen capacity, judicial enforcement, and oversight in these countries in Central America and the Caribbean, and Panama is benefiting from that.

We've been very active with them, including with a very important container program, by which we look at the containers transiting the ports of Panama, and this has now been extended throughout Central America. It's about a \$3 million project that allows us to monitor containers going to Canadian ports and to try to intercept drugs. In the case of Panama, we've now got figures of some 2,500 kilos of cocaine and a smaller amount of heroin that have been seized in Panamanian ports in containers that were destined for Canada. These are the kinds of programs that we're funding, and our effort is to try to reduce the impact and ensure that these drugs do not make it to Canadian streets.

• (1630)

The Chair: Thank you very much.

We do have a couple of minutes, and Mr. Holder wants a small intervention. I'll allow him a couple of minutes and that will finish us off.

Mr. Ed Holder: Thank you very much, Chair.

I've heard today that drugs are a major problem, that moneys from drugs are moving throughout the economy, and that narco-trafficking continues to be a serious problem. I thought they might be talking about a major city in Canada, or, frankly, any city in Canada. I don't think any country or any city in this world is immune from that. I don't think that precludes us from carrying on with a free trade agreement, because there are issues throughout the world, and I think to the extent that we get hold of this issue, that's to the betterment of Canadian citizens and citizens throughout the world.

I have a question for you, Mr. MacKay. It's one that's troubled me for some time. What I've heard piped through a variety of discussions from members opposite has been that somehow free trade agreements have diminished our balance of trade around the world; that is to say, when we've put in free trade agreements, a result of those free trade agreements— isn't it interesting?—has been

that somehow Canada's balance of trade has gone down. I'd like to ask you for your professional opinion, because I'd like to settle this finally, and if I'm wrong, I'm wrong. In your professional opinion, is Canada's balance of trade negatively impacted as a result of free trade agreements they put in place?

Mr. Cameron MacKay: I have a note here somewhere, but the evidence shows and studies have shown that trade between two countries after negotiating a free trade agreement should roughly double over about a ten-year period, and Canada's experience has been along those lines.

Mr. Ed Holder: So from your standpoint, fundamentally there is no negative impact to Canada's interest by proceeding with a free trade agreement.

Mr. Cameron MacKay: Certainly with respect to trade balances and trade deficits, trade policy tools are really not the appropriate tools to try to deal with those issues. I think if the government had a concern about those issues, there are tax policies and questions of currency, etc., that are more relevant to the issues of balance of trade than trade agreements are. It's for that reason that successive Canadian governments, over the last couple of decades, have dedicated themselves to negotiating trade agreements where we think they are in our interests.

Mr. Ed Holder: Thanks to you and your team.

The Chair: Thank you very much.

Mr. Reeder, very quickly.

Mr. Neil Reeder: I just want to make the point that we're not talking about development assistance here, but I think we have to remember that the flip side of this is that some of the smaller economies, where we're working with CIDA and other programs, will benefit from FTAs. From their vantage point, they now have tariff-free access to a major North American economy. We saw this in Latin America and we're seeing it now in Colombia, so you can anticipate benefits, because they will now have major access to a market like ours, for example, in the agrifood sector, where we don't grow vegetables in the winter; we don't grow fruit. For them, it's a wonderful opportunity. We can raise employment opportunity in some of these small economies that are vulnerable by giving them access to important markets in Canada, where we can't produce a certain product at certain times of the year. So it does assist the development of these countries and it's win-win.

The Chair: Very good.

I want to thank you, Mr. MacKay and your colleagues, for coming in. You actually started our session off; you've closed off our witness list, and we will be completing clause-by-clause on Thursday. I want to thank you for coming in and contributing to this very important piece of legislation that we believe will go all the way this time.

Thank you to the committee members.

With that, I'll close our meeting and we'll adjourn.

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