



**Canadian
Manufacturers &
Exporters**

**Manufacturiers et
Exportateurs du
Canada**

**Parliamentary Standing Committee on International Trade
Tuesday, May 1, 2018
8:45am – 9:45am
Room 415, 180 Wellington Street, Ottawa, Ontario**

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Good Morning. Thank you for inviting me to speak on behalf of Canada's 90,000 manufacturers and exporters and our association's 2,500 direct members to express our support for a Free Trade Agreement between Canada and Mercosur.

Manufacturing is the single largest business sector in Canada. The manufacturing industry's contribution is critical for the wealth generation that sustains the standard of living of every Canadian. The industry accounts for 11% of Canada's total economic output, while employing over 1.7 million Canadians directly in good high paying jobs.

Manufacturing is also an export-intensive business. It accounts for roughly two-thirds of Canada's total exports, and for \$1.3 billion in exports directly to the Mercosur countries.

As such, trade – both imports and exports – is vital to the Canadian economy and to the health of Canada's advanced manufacturing sector. This is why CME, and our members, fully supports free trade and Canada's free trade agenda. However, we do not blindly believe in free trade agreements for the sake of free trade agreements – with Mercosur or with anyone else. CME has always believed that no trade agreement is worth signing unless that deal meets three objectives:

First, it creates a fair and level playing field for Canadian manufacturers and exporters and ensures that they have an equal opportunity to export to foreign markets as foreign competitors have to export into Canada;

Second, it allows value added exports from Canada, and not just the export of natural resources; and

Third, it does not undermine the existing integrated manufacturing supply chains developed through previous FTA's, especially the NAFTA.

Without a doubt, with a combined market of 260 million people and a \$3 trillion economy, MERCOSUR represents a great opportunity for Canada and for Canadian manufacturers, if we can meet these three objectives through the negotiations.

As a first step, the negotiations must result in the rapid elimination of the very significant tariffs in place across the region that directly and negatively impact major industrial and export sectors. Tariffs up to 35%

in sectors such as automotive, machinery and equipment, pharmaceuticals, are trade prohibitive compared to Canada's relatively modest tariffs.

Second, we must ensure effective trade laws are established to remove structural trade barriers. I must echo concerns noted by other groups appearing before the committee over real concerns in some MERCOSUR markets of practices which are anti-trade and harmful to Canadian economic interests – including currency manipulation, direct economic subsidies, regulatory complexities, state owned enterprises, and dumping of certain products.

Third, like all FTAs, we must ensure effective trade dispute and remedy solutions to quickly resolve commercial issues as they emerge once the FTA is in place.

While this is CME's advice for FTA negotiations, there is a bigger, more structural issue that we as Canadians and you as the government cannot overlook, and that is our long-term economic performance under FTAs. As noted above, Free Trade Agreements are only as beneficial as the amount of new value-added trade that they create. Too often Canada's FTAs have not led to these outcomes, and this should be a top concern for this committee. Outside of NAFTA, Canada's exports record with other FTA countries has been mixed. For example, with the EU, our most recent FTA, exports have been down while imports up. We must have a plan to reverse these trade trends if we are to grow our economy and create new jobs to grow the middle class.

CME believes that this plan should consist of three critical elements:

First, we must improve our domestic business competitiveness including our tax and regulatory regimes to ensure they are focused on investment and growth at home and allow companies to produce goods competitively here for markets around the world.

Second, we must focus on leveraging existing business supply chains. Today, roughly 85 per cent of Canada's value-added exports are production parts that feed into larger finished consumer and industrial products. Governments must make decisions based on actual industrial capacity for global supply chain integration and expansion, not strive to create new export segments where there is no proven advantage or opportunity.

Finally, we must support the global growth of SMEs to support their growth at home. Canada has many small businesses but, not enough medium and large companies. Over 95% of manufacturers have under 10 employees, and many do not have the internal expertise or financial ability to expand globally. Governments have excellent export support programs but, they should be consolidated to ease access for small companies.

Today, Canada runs a significant and growing trade deficit with MERCOSUR countries in large part because of the structural realities of high tariffs, barriers to entry, and unfair trading practices. Eliminating these realities through negotiation is a must for entry into this FTA as it is the only path to export growth and prosperity at home for Canadian manufacturers and their millions of employees.

In conclusion, CME supports Canada's Free Trade Agreement with Mercosur because it can lead to a prosperous manufacturing industry and stronger Canadian economy - but we must ensure the negotiations eliminate structural impediments to trade and we implement the necessary plan to prepare Canadian industry for the global stage.

Thank you again, I look forward to the discussion.