

Submission to CIIT Hearings on the Canada- European Union Comprehensive Economic and Trade Agreement



UNIFOR

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Submission by Unifor
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Presented by:

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About Unifor

Unifor was founded in September, 2013 by its predecessor unions: the Canadian Auto Workers union (CAW-Canada) and the Communications, Energy and Paperworkers Union of Canada (CEP). Unifor represents more than 300,000 workers in nearly every sector of the Canadian economy. Unifor is Canada's largest union in the private sector.

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Introduction

Good morning Mr. Chair and Members of the Committee.

My name is Jerry Dias, and I am the National President of Unifor.

Unifor represents more than 300,000 workers in nearly every sector of the Canadian economy. Unifor is also Canada's largest union in the private sector.

With me is Angelo DiCaro, a National Representative in our Research Department.

Let me first thank you for inviting us to share our thoughts on the proposed Comprehensive Economic and Trade Agreement.

General Comments and Concerns on the CETA

Our union has been following these trade negotiations, to the best of our ability, since talks began in 2009. We've been critical of the deal, on a number of fronts.

Specifically, we've been critical of the way this deal has been negotiated, without the full and meaningful participation of trade unions, environmental NGOs and other groups in Canada's civil society.

We've also been critical of the way government officials have chosen to ignore popular concern over the deal. The CETA is unlike any trade deal we've seen before, yet public concern raised by workers and others has been marginalized and dismissed. This has created a climate of unhealthy debate on a deal that touches so many areas of public life.

The CETA extends far beyond the elimination of cross-border tariffs. In fact, it impacts areas of public policy, procurement policy, foreign ownership policy and local governance previously off-limits in foreign trade deals that Canada has signed. This was confirmed in the CETA highlight package issued by the federal government in October.

The CETA is also the first bilateral international trade agreement that explicitly binds our provinces, territories and municipalities. That means for local governments, new rules apply to how they

purchase services, how they set regional development policies, how they build schools, hospitals, how they invest in transit and other matters.

Many of the municipal councillors we spoke with over the past years hadn't heard of the CETA. They had no idea it would impact the day-to-day business of their city. Dozens of municipal councils, school boards and districts passed resolutions, raising concerns about the deal. Some have even asked for exemptions from the deal, including Toronto, Hamilton, Mississauga, Grand Forks, New Westminster, Thunder Bay, Oshawa, and others (visit: <http://canadians.org/action/2012/CETA-resolution.html> for a complete list).

Now I want to be clear. We accept that enhanced trade with Europe can be a good thing. We've said that all along.

And in every trade deal there will be positive outcomes for some industries and there will be cause for concern in others.

The key issue in our view is to figure out how the CETA balances the two, and then determine if it's in the best interests of Canadians.

I'll be frank. We haven't yet seen the full negotiating text of the deal. No one has. And because of that, it's impossible to fully assess the impact this deal could have on our members and on Canadian workers more generally.

We appreciate the information that's been circulated by the federal government so far. But it doesn't provide an objective look at the deal. It's a slanted look at all of the supposed benefits of the deal. More like an advertising campaign, than a genuine policy discussion. And that's simply not sufficient. It is irresponsible for any government to overstate the positives and downplay the negatives. Canadians don't automatically benefit simply because we've signed a trade deal.

Unifor represents workers in many sectors that are in the cross-hairs of this deal. And, not surprisingly, our members have important questions and concerns.

CETA and the Auto Industry

I would like to start off by saying a few words about the implications of the proposed CETA for Canada's auto industry, which is an important sector both for our union, and for Canada's whole economy.

It is important to note the painfully unbalanced starting point from which we would enter this agreement. The chart in our handout illustrates our bilateral trade with Europe in automotive products. In 2012 we imported \$5.6 billion worth of automotive products from the EU – the highest ever. Three quarters of those imports consisted of finished vehicles. Our auto imports from the EU have more than doubled since 1999. European automakers have increased their market share in Canada faster than any other group of producers over this period.

Going the other way, we exported just \$269 million worth of products (two-thirds of that was auto parts). Our exports to the EU have declined by half since 1999. So let's add up the damage: imports of \$5.6 billion, exports of one quarter billion, makes for an enormous trade deficit -- of over \$5 billion. The auto trade deficit alone accounted for close to half of our overall merchandise trade deficit with the EU last year. So it is very important in the big picture.

So far this year, that imbalance has gotten even worse. Our auto exports to the EU are down by 16% over the first eight months of 2013, compared to year-earlier levels. Our exports of finished vehicles, puny to begin with, are down by over half so far this year. Meanwhile, our imports from the EU have been flat. So far this year we have imported 22 times as much auto products from Europe, as we have exported there. That's the biggest imbalance in our bilateral auto trade ever.

What explains this one-way street? The basic structure of production in the industry is one reason. European brands are selling mostly higher-end luxury vehicles here, produced at plants in Europe that service the global market. The unique appeal of those brands to luxury customers helps them penetrate our market. But the importing firms (Mercedes, BMW, Audi) have no production footprint at all in Canada. So the more they sell here, the bigger the deficit gets.

Going back the other way, the vehicles we produce in Canada are designed mostly for North American consumers. They are very high-quality, competitive vehicles, that's for sure. But their features, their size, and their performance are aimed at North American customers. There will never be more than a niche interest in those products in Europe. Some consumers would like to drive a North American minivan, or a muscle car, or some other iconic North American vehicle. But not many. Let's be honest about that.

Tariffs have very little to do with the current imbalance, in other words. It reflects deeper structural factors in our industry.

Keep in mind, too, that the big shift in exchange rates over the past decade has also aided the European brands. Our dollar has risen against the Euro by 15 percent over the last decade. That's made imports from Europe less expensive -- and our exports to Europe more expensive. In fact, that change in exchange rates is more important than tariffs to relative competitiveness.

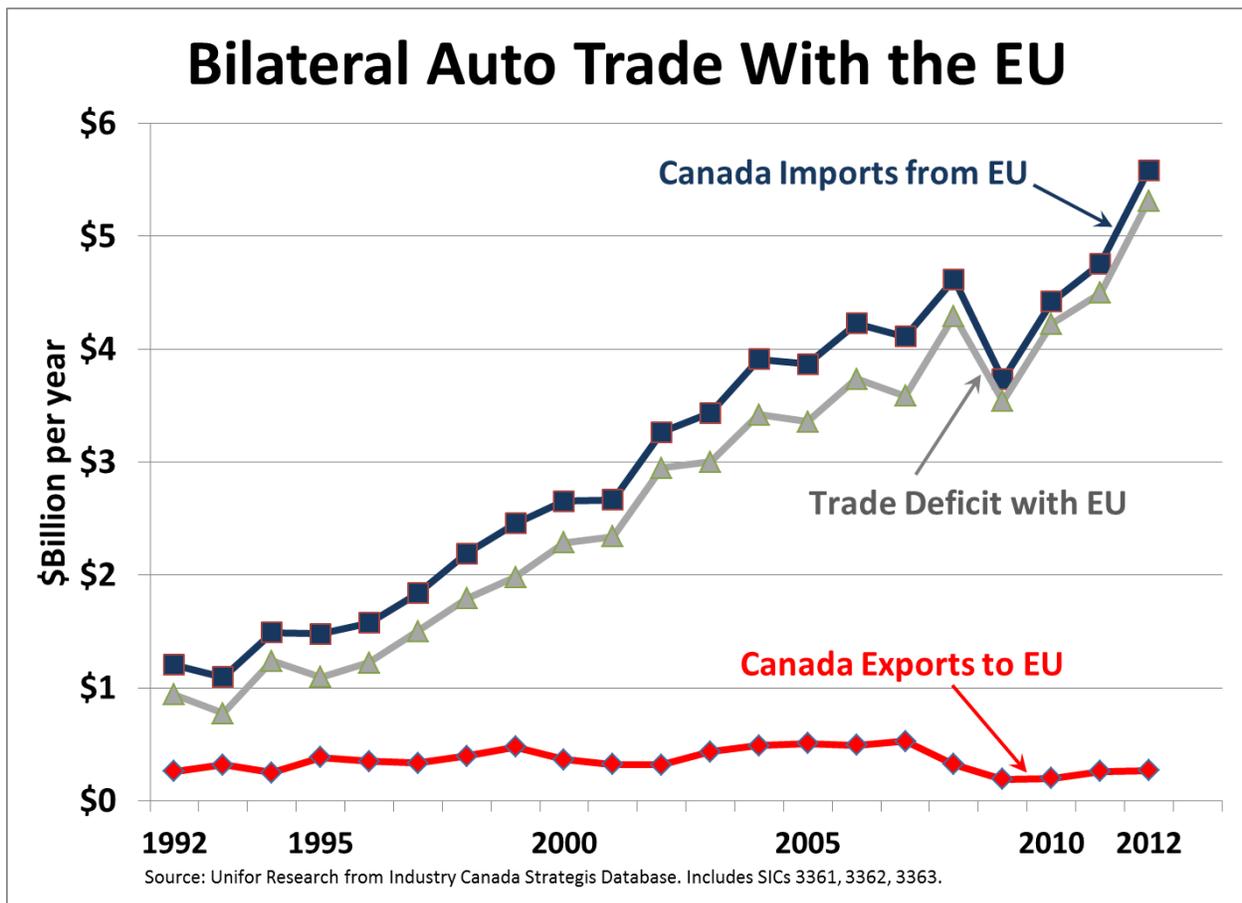
Continued austerity and weak demand in Europe, and continued overvaluation of our own currency, mean this huge imbalance with Europe will get worse in coming years, not better. The more we import, and the less we export, the weaker our industry becomes. CETA will not change that. In fact, we think CETA will make a bad situation in our bilateral relationship with Europe, even worse.

We still haven't seen the details, but we understand that the CETA will eliminate automotive tariffs on both sides, over several years. That will give a modest boost to sales in either direction. But the

increase in imports from Europe will vastly outweigh the increase in exports to Europe, simply because their proportional starting point in our market is 22 times bigger.

Normally, tariff-free status would only apply to vehicles that meet rules-of-origin content requirements, which in the case of vehicles we are told will be 50%. That would be a huge disadvantage to Canada, since none of the vehicles we produce meet that threshold – hence there would be no benefit at all for our exports, to offset the growth in imports from the EU (whose vehicles, given the continental supply chain there, easily meet the 50% content threshold).

To address this obvious asymmetry, we are told the CETA has a “derogation” rule that allows us to export a certain number of vehicles tariff-free to the EU with only 20% domestic content, rather than 50%. That special flow is capped at 100,000 vehicles. But the ceiling might as well be set at 1 million vehicles – because Canadian vehicle exports to Europe will not come anywhere near that ceiling under any possible scenario. The derogation clause avoided a painful and unfair penalty being placed on Canada, if normal rules of origin had been followed. But it does not change the fact that the European industry will get far more from this deal than the Canadian industry. Many government officials have wildly misinterpreted this 100,000 quota. It doesn’t mean we will sell 100,000 vehicles to Europe, not at all. If we are lucky, we will sell 10,000.



We export just a few thousand vehicles per year to the EU today. We're not sure how many, unit statistics are hard to find. But it's well under 10,000. A 10% tariff reduction will not significantly alter that flow – especially since the exchange rate has already saddled us with a 15% penalty. We estimate that in the decade following a CETA, the absolute increase in our auto imports from the EU will be at least 10 times larger than the increase in our exports, pushing the bilateral automotive trade deficit to \$7 billion or more.

Will it mean the end of the world for our auto industry? Of course not. But it will mean more lost sales and – ultimately – more lost jobs. And claims by the government that CETA will be a big benefit for our auto industry are not remotely justified. No-one I speak with in the industry thinks Canada's auto industry will be a net winner from this deal. The only question is how bad the damage will be.

CETA and Other Unifor-Represented Sectors

In the **forestry** sector, trade between Canada and the EU is very lopsided. On cut-lumber and newsprint, Europe already has no border tariffs. CETA would eliminate tariffs on products such as plywood and strand board, but there are limited markets for those products.

Our exports of wood and paper products to Europe have declined by two-thirds over the past decade. We import ten times the amount of furniture from Europe as we sell there, thanks largely to our high dollar.

Under these conditions, it would seem that Canada is destined to be quite literally a hewer of wood for the European market. We'll sell barely-processed forestry products to Europe, and continue buying back finished products. That's not a net advantage to Canadian workers. That's not strengthening our economy.

In **health care**, independent studies have estimated that drug prices will rise by up to \$2 billion per year as a result of stronger drug patents under CETA. No matter how you slice it, this will burden workplace benefit plans and impose new cost pressures on our health system. Both of these outcomes will impact Canadian households. The increase in drug costs will likely outweigh the price reductions resulting from the elimination of tariffs on European imports. So it cannot factually be claimed that consumer prices will fall under this deal. In fact, counting drug costs, they could very well rise.

We also fear these cost pressures will impact the jobs of front-line health care workers, putting additional strain on already chronic problems of under-staffing, excessive workload and minimum standards of care.

In the **telecommunications** sector, negotiators have installed "ratchet" clauses that effectively lock-in rule changes regarding private and foreign ownership. This will prohibit limits future

governments from considering a full-range of policy options to best manage this vital sector, including Canadian ownership rules or public ownership.

In the **fisheries** sector, it seems that the CETA will enhance access to European markets (through elimination of product form requirements, as well as tariff elimination), and this will provide new opportunities for the East Coast fishery. We will want to carefully monitor, however, the impact of exemptions regarding made-in-Canada processing of EU-bound fish products on future activity levels in this part of the industry.

It remains to be seen how the reduction in tariffs will impact Canada's diverse **food and beverage** processing sector (excluding dairy, poultry and other supply-managed goods). This sector employs 200,000 workers, from soft drink manufacturing to animal feed processing. The government has indicated that 92% of "agricultural tariff lines" would be reduced to 0% should CETA come into force, but it's unclear what those reductions mean for this diverse sector of the economy? A full accounting of the tariff lines needs to be made public and the likely impact on food processing if we are to gauge the deal's full impact.

In the **mass transit** sector, Canada has made strides in developing local investment strategies, including "Buy-Local" policies that encourage competition but also guarantee local benefit and local jobs. In Thunder Bay, Ontario we have a high-tech rolling stock facility operating at full capacity, employing hundreds of young skilled trades workers, as a result of "Buy-Canadian" rules in the province. These strategies aren't protectionist. They're fair and they're effective job creators. They can be used to build up our mass transit sector capacity.

A core principle of CETA is to expose all of this procurement to full access by European suppliers. We are told there are exemptions: but the details on how the exemptions apply remain vague. Some provinces have been denied access to certain exemptions, which is patently unfair. And the very idea that governments should be prevented from using their own procurement powers to stimulate local job creation and other goals, is one that we completely oppose.

In each of these and other sector examples, workers are left wondering: how is the CETA good for us? How does the CETA help secure our jobs? How does it ensure we make decent wages? How can it strengthen our communities?

These are fair questions. I get asked them all the time. And unfortunately I can't answer them.

CETA's Impact on Canadian Jobs

Unifor Economist Jim Stanford authored a detailed study in 2010 that examined the potential jobs impact of CETA. He looked at the actual historical experience of other trade agreements that Canada has already signed. He also considered the impact of tariff elimination and exchange rate fluctuations on bilateral trade flows, and domestic production and employment.

His study shows that Canada's trade deficit with Europe will rise under the CETA. And he also shows that our economy could stand to lose up to 150,000 manufacturing and processing jobs, depending on the precise scenario considered.

This study, and other critical research, offers a very different approach than the gung-ho predictions cited repeatedly by government officials. We have heard many times about a predicted \$12 billion gain in GDP as a result of the deal, 80,000 new jobs, and thousands of dollars of benefits for every family.

These predictions are based on far-fetched assumptions about how economies work. It includes an assumption that there is, and would always be, full employment. No one can lose a job as a result of free trade and no one can gain a job. All economic gains are shared between all Canadians. And higher incomes lead to higher savings and hence to higher investment – an assumption which alone explains over half of the predicted \$12 billion benefit.

The 80,000 new jobs prediction is especially open to challenge. A starting point of the government's own economic model is that employment is full and constant. It is assumed that no one can lose their job from trade, and that production in Canada fully adjusts to the new competitive landscape after CETA. That assumption is unbelievable. But then the government violates its own assumption, by converting that \$12 billion gain back into a prediction of new job creation. The whole argument is internally consistent. Many mainstream economists, such as Stephen Gordon and William Watson, have pointed this out publicly.

I encourage the Committee, in your deliberations, to carefully examine the assumptions behind those predictions. They are unbelievable and internally contradictory. You should develop your own, unbiased judgment on the likely economic costs and benefits of this agreement.

More Unbalanced Trade with Europe

It's not a secret that Canada mostly sells raw materials to Europe. And Europe mostly sells value-added, finished products back to us. This has created an extraordinary 28 billion dollar manufacturing trade deficit with the EU. Our fear is this deficit will only get worse. In fact, it can only get worse if we make it easier (and cheaper) for European firms to ship finished goods into Canada, and by making it easier (and cheaper) for Canadian firms to ship resources into Europe.

Top 10 Canadian Product Exports to the European Union (HS6 Codes)

Product (HS6 Code)	Value (\$billions)
Gold (unwrought) (710812)	\$11.6
Petroleum Oils (271019)	\$2.1
Diamonds (710210)	\$1.6
Natural Uranium (284410)	\$1.4
Aircraft (880240)	\$1.0
Soya Beans (120190)	\$0.8
Nickel (750120)	\$0.7
Bituminous Coal (270112)	\$0.7
Iron Ores and Concentrates (260112)	\$0.65
Copper Ores (260300)	\$0.6

Top 10 Canadian Product Imports from the European Union (HS6 Codes)

Product (HS6 Code)	Value (\$billions)
Medicines (300490)	\$3.5
Light Oils (271012)	\$3.1
Motor Vehicles: 1501-3000cc (870323)	\$2.0
Motor Vehicles: 3000+cc (870324)	\$1.9
Crude Petroleum (270900)	\$0.9
Wine (220421)	\$0.9
Turbo-Jet Parts (841191)	\$0.7
Airplane and Helicopter Parts (880330)	\$0.7
Petroleum Oils (271019)	\$0.67
Gold (unwrought)	\$0.6

Source: Industry Canada, Online Trade Data

Canada-European Union Annual Trade Balance (including import and export flows) (2003-2012)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports to EU	\$14.7	\$16.3	\$17.23	\$20.2	\$24.9	\$23.0	\$18.0	\$19.0	\$20.3	\$20
Imports from EU	\$36.2	\$38.3	\$40.3	\$43.1	\$43.0	\$47.0	\$41.1	\$42.4	\$47.3	\$47.4
Trade Balance	-\$21.6	-\$22	-\$23.1	-\$23	-\$18.1	-\$24	-\$23.0	-\$24	-\$27	-\$28

Source: Industry Canada, Online Trade Data (Numbers may not add up due to rounding)

Unifor doesn't believe this is an attractive proposition. We don't believe a heavier reliance on resource-extraction and resource-export is how strong economies are built. Canadians need to have the ability to balance our industrial development. We're stronger when we add-value to our exports. Only then can trade with Europe become fairer.

Instead, it appears we are negotiating away our ability to strike that balance.

We're granting rights to private investors and corporations that are unheard of. We're granting private investors and corporations the right to challenge democratic policy decisions made by our national and sub-national governments if those decisions infringe on their right to profit.

What about the rights of workers to decent jobs? What about the rights of citizens to democratic decision-making?

Recommendations

As we see it, the CETA, and the process by which it was negotiated, doesn't seem to account for the interests of all civil society. It accounts only for a select few.

I am encouraged that this committee is taking the opportunity to discuss the proposed trade deal. And, once again, I thank the committee for the opportunity to share our views.

I urge the committee, and the federal government, to release the full text of the deal – as soon as possible.

Only then will Canadians be able to properly assess the value of the deal, and form an independent opinion. Once the deal is made public, I hope that our union will have another chance to speak with this committee, to share a more informed view of its contents.

I urge the committee to recommend that an eventual deal can only be ratified should the House of Commons and each provincial and territorial parliament vote in favour of it.

Finally, I recommend that the CETA agreement remove the provision for investor-state dispute settlement courts, and strengthening drug patent laws. These provisions have nothing to do with freer trade. They arbitrarily strengthen corporate powers, in ways that will cost Canadians and their governments billions of dollars in the future.

I put these three recommendations to you for further consideration.

I want thank you again for the opportunity to speak.

And we are free to answer any questions you have.

AD:amvcope343