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## **Standing Committee on Public Accounts**

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**EVIDENCE**

**Thursday, November 9, 2017**

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**Chair**

**The Honourable Kevin Sorenson**



## Standing Committee on Public Accounts

Thursday, November 9, 2017

•(0845)

[English]

**The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)):** Good morning, everyone. Welcome. This is meeting number 78 of the Standing Committee on Public Accounts, and it's Thursday, November 9, 2017.

I will remind all committee members and guests with us and those in the audience that today we are televised, so I would encourage you to mute your cellphones or other communication devices.

Today we are studying “Report 2, Custom Duties” from the spring 2017 reports of the Auditor General of Canada.

As our witnesses, we have this morning, from the Office of the Auditor General, Mr. Michael Ferguson, the Auditor General of Canada, and Richard Domingue, principal.

I know I'll embarrass him, but I'll also say that Mr. Domingue will be retiring in a few weeks, and this will be his last visit to committee. Mr. Domingue started his career at the Library of Parliament in 1988 as an analyst on the House of Commons finance committee. He also worked as an analyst on the public accounts committee in the early 1990s, and in 1999 he joined the Office of the Auditor General of Canada. Mr. Domingue's audits touch mostly on financial and economic areas, such as long-term fiscal sustainability and public sector pension plans. He has appeared more than 20 times before various House of Commons and Senate committees over the years, including a dozen times before the public accounts committee. Thank you for being here today, and we wish you all the best in the future.

We have, from Canada Border Services Agency, Mr. John Ossowski, president; and Brad Loynachan, director of trade policy.

From the Department of Finance, we have Mr. Rick Stewart, assistant deputy minister, international trade and finance branch; and Scott Winter, chief, international trade policy division, trade and tariff policy, international trade and finance branch.

From the Department of Foreign Affairs, Trade and Development, we have Mr. Steve Verheul, assistant deputy minister, trade policy negotiations.

We have a number of opening statements, so for that reason we want to begin right away.

We'll first turn to our Auditor General, Mr. Ferguson.

**Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General):** Mr. Chair, thank you for this opportunity to discuss our spring 2017 report on customs duties.

Our audit focused on whether the Department of Finance Canada, Global Affairs Canada, and the Canada Border Services Agency carried out their roles and responsibilities in managing customs duties on the many goods imported into Canada each year.

In the 2015-16 fiscal year, federal government revenue from those duties was more than \$5 billion. Many tariff items raised little revenue. For example, in 2015, 1,973 tariff items generated only \$26 million. That is less than one-half of one per cent of duty revenues. In addition, 57% of customs duty revenues were generated by only three categories of goods: apparel, footwear, and vehicles and auto parts.

[Translation]

We found that the Canada Border Services Agency was unable to assess all customs duties owed to the government because its import controls were not working adequately.

The import forms filled by importers and customs brokers were not always useful to the agency. For example, the quality of the product descriptions entered on the forms was generally poor. Almost 75% of the records we examined did not have descriptions that allowed us to determine whether the importers used the correct tariff classifications. Therefore, we questioned why the agency required the importers to provide product descriptions.

To expedite trade, the agency did not compare the goods with the information on the import form or on the invoice at the border. Goods were released at the border for delivery to their destinations. Within five days after release, the agency confirmed the amount of duties and taxes owed. We believe that this self-assessment system with little validation allowed some importers to be non-compliant with the import rules and regulations.

Importers are responsible for ensuring that the information provided is accurate. They often use customs brokers to help them prepare import forms. We found that despite known non-compliance with import rules, the agency did not monitor the performance of customs brokers. The agency has the power to suspend or cancel a broker's licence; however, it rarely suspended a licence because of concerns about a broker's overall performance.

● (0850)

[English]

We found that the Canada Border Services Agency and Global Affairs Canada didn't work together to adequately manage the limits on quota-controlled goods coming into Canada for the five imported goods we examined: dairy, chicken, turkey, egg products, and beef. The first four of these goods are covered under the supply management system.

Canada applies tariff rate quotas to control the volume of these goods, which can be imported into Canada at a lower rate of duty or duty-free. Once that volume has been imported, duties are applied at a higher rate.

In the audit, we noted a discrepancy between the volume authorized by Global Affairs Canada and the volume declared to the Canada Border Services Agency as eligible for a lower rate of duty. We observed that a significant volume of controlled goods entered Canada without the required permit. We estimated that in 2015, 131 million dollars' worth of dairy, chicken, turkey, egg products, and beef were imported without a permit. If the appropriate duties had been applied to the excess volume, the government would have assessed \$168 million in additional customs duties.

We also found that the duties relief program, administered by the Canada Border Services Agency, could not always prevent the diversion of goods into the Canadian economy. The program allows importers to import goods without paying duties as long as they are used to add value to goods that are later exported.

In 2016, the agency completed six compliance verifications of high-risk importers under the duties relief program and found that none of these importers complied with the program's requirements. The agency later suspended the licences of these six importers.

[Translation]

Finally, we examined the \$20 minimum value to import goods duty-free by mail or courier. This amount has not changed since 1992, but the volume and total value of incoming parcels have increased significantly. The agency did not have the staff to inspect all incoming parcels, which meant that duties and taxes were not always assessed when they should have been. The agency determined that administering customs duties on goods imported through the postal service and valued at less than \$200 resulted in a net cost to the government.

Overall, the Government of Canada assesses customs duties and controls goods coming into the country according to methods that are complex and difficult to administer. This means that the program operates differently in practice than on paper.

[English]

The Canada Border Services Agency, Global Affairs Canada, and the Department of Finance Canada have agreed to our recommendations.

Mr. Chair, this concludes my opening statement. We would be pleased to answer any questions the committee may have.

Thank you.

**The Chair:** Thank you very much, Mr. Ferguson.

We'll now move to Mr. Ossowski, please.

**Mr. John Ossowski (President, Canada Border Services Agency):** Good morning, Mr. Chair, and members of the committee. Thank you for the opportunity to appear today along with my fellow witnesses.

I am joined by Brad Loynachan, director of trade policy within the CBSA's trade and anti-dumping programs directorate, whom I may turn to in responding to some of your questions.

● (0855)

[Translation]

I will begin by saying that we agree with the five recommendations made to the CBSA by the Auditor General.

In response, we have developed a detailed action plan which is now being implemented. The plan reflects the essential role the agency has to maintain the integrity of our country's customs duties regime and the importance of this regime to Canada's competitiveness and prosperity.

[English]

I will begin with a brief review of the roles that each of the departments here today play in the customs regime. As a way for the federal government to obtain revenue and protect certain sectors of the economy, this regime is intrinsically linked to the mandate of all three departments.

Finance Canada is responsible for developing and implementing policies on trade and tariffs, including the customs tariff. It also provides analysis and advice on the government's international trade and finance policy agenda.

As for the CBSA, our overall mandate is twofold. We secure the border, while ensuring that goods and people cross the border as expeditiously as possible. Under our facilitation role, we are also responsible for assessing the duties and taxes owed to the Government of Canada. Increasingly, we do this job in a fast-paced, complex global trade environment, one characterized by a 30% increase in the number of individual importations since 2012.

Maximizing the benefits of trade for Canadians and Canada's prosperity is central to the government's policy agenda, and the CBSA takes its role in supporting trade very seriously.

Global Affairs Canada is responsible for controlling the import of goods for which Canada requires an import permit, such as beef, chicken, and dairy products. The goods are listed on the import control list found in the Export and Import Permits Act.

[Translation]

Returning to the CBSA, I wish to stress our dual mandate: we prevent the entry of those travellers or goods posing potential threats to Canada while facilitating the free flow of legitimate cargo and people at the border.

[English]

As mentioned, our officers assess duties and taxes on goods coming across the border, totalling more than \$71 million in duties and taxes per day. A large part of this comes from the importation of commercial goods, which is central to our discussion today.

Assessing duties and taxes is a shared responsibility between importers and the CBSA. Let me be clear. Our customs regime is grounded in voluntary compliance by the importers and risk management by the CBSA. Much like Canadians are expected to voluntarily declare and pay their taxes, the Customs Act places the onus on importers to self-assess and ultimately pay their trade-related duties and taxes. Importers or their brokers are expected to provide correct declarations to the CBSA, and the agency then risk assesses the declaration.

For importers potentially posing a threat to Canada's security or safety, the agency examines the shipment to decide whether it should be released, refused entry, or confiscated. After the goods have been released, the agency confirms the duties and taxes owing and accepts the payment. The CBSA has the legislative right to conduct trade verifications to ensure compliance with all import requirements, including the proper assessment of duties and taxes, and the issuance of applicable penalties.

While it's our job to protect the health, safety, and security of Canadians, we must do so in ways that facilitate legitimate trade across our borders to keep the economy moving. This is a process that we seek to improve all the time. That brings me to our response to the report's recommendations.

[Translation]

In the report, the Auditor General found that the agency's controls on the import of supply-managed goods were inadequate. We recognize the seriousness of this finding given our country's strong commitment to the supply management system.

[English]

From this finding, the report's fourth recommendation called on us to work with Global Affairs Canada to better enforce tariff rate quotas by reviewing the process of verifying permits. In response to this recommendation, the CBSA acted quickly to strengthen pre-existing compliance measures.

Specifically, we have increased the number of trade compliance verifications targeting supply-managed goods, so that additional duties and taxes owing as a result of non-compliance will be assessed. Since April 2016, this change has yielded \$72 million in additional revenues that would not have otherwise been assessed.

We also moved to audit participants in our duties relief program, under which certain pre-authorized companies are allowed to import goods without paying customs duties at the time of importation on the condition that the goods are later exported. CBSA verifications are ongoing and have resulted in the suspension or revocation of eight licences since May 2016.

Moving forward, we will continue on this track of increased verifications, making sure that the integrity of Canada's supply management regime is upheld through the proper assessment of duties and taxes and adherence to program conditions.

We will also review how the CBSA validates that goods being imported respect permits issued by Global Affairs Canada. We will address any gaps in the process while exploring automated means to carry out these functions more efficiently. We will complete this review by September 2018.

The Auditor General's fifth recommendation, also pertaining to controlling goods, called for making licences under the duties relief program renewable, and requiring a financial deposit from importers proportional to the value of the duties at risk. In fulfilling the agency's commitment to strengthening compliance as referred to in recommendations 4 and 5, we will, in consultation with Global Affairs and Finance, complete this work by March 2019.

●(0900)

[Translation]

Moving to the Auditor General's other recommendations, related to the assessment of duties, we also take seriously the finding that misclassification of imported goods has taken place.

[English]

As such, we will follow recommendation 1, which calls for a review of our customs brokers regime, including consideration of a licensing process that requires periodic assessment of a broker's compliance record, and shared liability between brokers and importers when it comes to compliance with certain requirements. This review will include consultations with impacted stakeholders, including customs brokers. We will complete this review by September 2018.

In response to recommendation 2, our agency will review its penalties, aiming to create a more meaningful deterrent to those importers who do not comply with the law relating to import revenues or with the agency's trade programs. To do this, we will consider strengthening the rules around specific penalties, namely, our administrative monetary penalty system, or AMPS, as well as the rules around seizures and qualifications for the CBSA's privilege programs, such as the trusted trader program. Again, consultation with our stakeholders will be an important component of the review.

Finally, Mr. Chair, we also agree with recommendation 3, which is to review the time period allowing for adjustments to be made to import declaration forms after the fact without compromising our ability to conduct compliance verifications. To this end, in consultation with our stakeholders, our agency is conducting a review of the current legislative provisions that will be completed by December 2019. As always, we seek the optimal balance between the agency's ability to conduct meaningful compliance verifications and our responsibility to facilitate trade.

In closing, let me say again that we take this report's findings seriously, and our actions speak to this. Let me also reiterate that trade facilitation is critical to Canada's prosperity, and our agency is committed to responding to the needs of the import and export communities to help enhance Canada's competitiveness.

[Translation]

I wish to thank the Auditor General for his report and recommendations, and for helping us to make further improvements.

[English]

With that, I'm now pleased to take your questions.

**The Chair:** Thank you very much, Mr. Ossowski.

Now we'll move to Mr. Stewart, please.

**Mr. Rick Stewart (Assistant Deputy Minister, International Trade and Finance Branch, Department of Finance):** Thank you, Mr. Chairman and members of this committee. Good morning to you all. We appreciate the opportunity to be here today.

[Translation]

The Deputy Minister of Finance sends his regrets for not being available to participate today.

I will begin my remarks with a brief overview of the role of the International Trade and Finance Branch with respect to customs duties. I will then say a few words about the Auditor General's findings and the actions we are taking to address this recent recommendation to the department to review Canada's tariff regime.

[English]

The Minister of Finance has legislative and policy responsibility for Canadian import policy, including Canada's tariff regime, which is governed by the customs tariff and its underlying orders and regulations. The international trade and finance branch provides analysis and advice on trade and tariff policy issues to support the minister in this capacity. The branch is also involved in drafting related legislation, orders and regulations, and supporting their implementation.

With respect to customs duties, our analysis and advice is guided by proactive tariff policy principles in support of important economic policy objectives. In recent years, this has included numerous measures to assist various economic sectors, support consumers, and ensure tariff programs for developing countries are aligned with global realities. These efforts are in addition to the many changes made to the legislation as a result of trade agreements, and to simplify its structure and administration.

● (0905)

[Translation]

Regarding the customs duties audit finding, the Department of Finance was largely regarded as effectively fulfilling its responsibilities. The report concluded that when the department reviewed customs duties, whether it be in the context of FTA negotiations or in support of various other government priorities, the analysis conducted was sound.

The report nonetheless recommended that the department conduct a review of the Customs Tariff to identify if there are any specific

tariff items that no longer meet their policy objectives and that could possibly be modified.

[English]

As outlined in our response to this recommendation, the department has agreed to undertake such a review, taking into account Canada's tariff policy objectives and international obligations, among other factors. In fact, in accordance with the timelines provided in our detailed action plan, this review is currently under way by my officials. Our objective for this review is to identify specific tariff items that could be modified, as well as other technical simplifications to the tariff structure that would help reduce red tape and ease administrative burden and compliance costs for businesses. Our aim is to provide recommendations to our minister in the coming months and to implement any resulting changes by the end of 2018.

Before I end, I would like to thank the Auditor General for the constructive feedback provided in the report. We look forward to working ahead on our recommendation.

Thank you once again for your time. We look forward to answering your questions.

**The Chair:** Thank you very much, Mr. Stewart.

We'll now turn to Mr. Verheul, please, from Foreign Affairs, Trade and Development.

Welcome.

**Mr. Steve Verheul (Assistant Deputy Minister, Trade Policy and Negotiations, Department of Foreign Affairs, Trade and Development):** Thank you and good morning, Mr. Chair and members of the committee. I'd like to start by thanking you for inviting us to appear today.

On behalf of Global Affairs Canada I would like to thank the Auditor General for the work of his office on this important issue. We acknowledge the findings and recommendations of the report and look forward to discussing the steps taken to address some of his findings. First, I would like to provide some information on the role of Global Affairs Canada as it relates to the customs tariff.

Global Affairs Canada is responsible for administration of import controls under the Export and Import Permits Act. It is the government authority for the review of and the issuance of permits regarding the import of products contained on the import control list. This list contains many different types of goods, including various agricultural products, textiles and apparel, certain steel products, and certain strategic and military goods. The majority of items contained on the import control list are identified by the customs tariff classification.

Under certain bilateral and multilateral commitments, Canada has established tariff rate quotas for agricultural products, including supply-managed goods, which allow for a certain predetermined volume of products to be imported at a low rate of duty. Importers wishing to claim the low rate of duty for these goods normally require a shipment-specific permit issued under the Export and Import Permits Act. Imports of these goods without a shipment-specific permit can normally only be facilitated at the higher rate of duty as identified in the customs tariff. There are certain exemptions for imports of goods for personal use.

Global Affairs Canada has a close working relationship with the Canada Border Services Agency, which is responsible for the assessment of the goods imported into Canada and the enforcement of border controls. Import permits issued under the authority of the Export and Import Permits Act are shared electronically on a transaction-by-transaction basis with the Canada Border Services Agency in order to facilitate their administration of border controls and tariff classification of the imported goods. This information process is facilitated via Global Affairs Canada's export and import control system software and the Canada Border Services Agency's accelerated commercial release operations support system. As such, ensuring that tariff rate quotas are respected and that supply-managed goods entering Canada are properly assessed is a shared goal of both Global Affairs Canada and the Canada Border Services Agency. We take seriously the responsibility to administer the import control component of Canada's system of supply management.

A key finding of the OAG report regarding the management of customs duties was that a certain volume of controlled goods subject to tariff rate quotas was imported into Canada at the low rate of duty without the required shipment-specific import permit, thereby negatively impacting the integrity of Canada's system of tariff rate quotas and duties payable to the Government of Canada. In order to address this finding, the OAG recommended that Global Affairs Canada and the Canada Border Services Agency work collaboratively to better enforce tariff rate quotas.

In response to the OAG's findings and recommendations, the department has instituted a process by which officials of the Canada Border Services Agency will receive regular breakdowns of all permits issued for agricultural goods subject to import controls under the Export and Import Permits Act. This will assist CBSA officials in their post-shipment verification activities and improve the effectiveness of the enforcement of tariff rate quotas.

The information is being shared under established information-sharing authorities. We believe that strong interdepartmental co-operation is one of the main strengths of Canada's import control program. I can assure you that Global Affairs Canada is fully committed to strengthening our efforts in this important area.

We will be happy to respond to your questions on these or other matters. Thank you.

● (0910)

**The Chair:** Thank you very much, Mr. Verheul.

We'll now move into our first round of questioning.

The first round goes to Mr. Lefebvre, please. You have seven minutes.

**Mr. Paul Lefebvre (Sudbury, Lib.):** Thank you, Mr. Chair.

Before I start, Chair, as you know, we have pretty much a committee policy that we ask that deputy ministers join us at the meetings, so I would like to have an explanation as to why the deputy minister of finance and the deputy minister of foreign affairs are not here.

I would just like to have your explanation, please, Mr. Chair.

**The Chair:** Maybe I can have Mr. Stewart answer.

We were aware that he was unable to be here today. He was here on October 17 for the public accounts, and we were pleased with that. I think we knew that he wasn't going to be able to attend.

Mr. Stewart, would you like to add to that?

**Mr. Rick Stewart:** Thank you, Mr. Chair.

What I would add is that certainly my deputy minister takes appearances at all committees seriously, and it is with regret that he was not able to be here today due to conflicting obligations.

**Mr. Paul Lefebvre:** All right.

With respect to Global Affairs, is it the same answer?

**Mr. Steve Verheul:** It is essentially the same answer, yes. Our deputy minister is currently in Da Nang at the APEC ministerial meeting with the Prime Minister and is unable to appear today.

**Mr. Paul Lefebvre:** That's a strong answer. I'm satisfied with that, if the rest of my committee members are satisfied to continue.

**Some hon. members:** Agreed.

**Mr. Paul Lefebvre:** Okay.

**The Chair:** I'm very pleased that Mr. Verheul is here. I'm sure we won't be disappointed, and likewise for Mr. Stewart.

**Mr. Paul Lefebvre:** Thank you. Yes, I agree.

With that, Mr. Chair, can I start my time?

**The Chair:** Yes, go ahead.

**Mr. Paul Lefebvre:** Again, thank you, everyone, for being here this morning.

I just want some explanation before I start the questions.

Mr. Ossowski, you say the system we have under the CBSA is voluntary compliance by importers and risk management, and the risk is managed by the CBSA, much like Canadians have a voluntary compliance when they file their taxes. We have to put everything in there. If not, the CRA comes back and they reassess us to determine what we actually owe in taxes.

However, we have a system to verify that, which is called a net worth assessment. If you file zero on your taxes over the years, basically the CRA comes back and says, "Well, on a net worth assessment, we think you're actually worth this, and therefore you need to pay your taxes at x amount."

Is there the same system for importers? At the end of the day with the voluntary compliance, from what we see here, if you didn't properly declare, there are not the strong checks and balances in place to address that. Is there a parallel system? You're comparing it to a taxpayer compliant system, but is there a system that is similar for the importers?

**Mr. John Ossowski:** We probably have it a little better, because you have to provide some documentation to us with every import. That is unlike the tax system, where you potentially could not file for a particular year, even though you're obliged to, and then you could do some catch-ups.

However, the basics of it, though, are that you have to look for the appropriate classification of what the importation is. We look for that in every circumstance. Sometimes it's done electronically, and sometimes it's in a paper format. It depends on what the good is and the mode of how it's coming in.

• (0915)

**Mr. Paul Lefebvre:** How often is that reviewed or audited? Obviously, anybody could put whatever they want on the forms. There have to be checks and balances in place. What are the audit measures?

**Mr. John Ossowski:** To put it in context, we do 17 million commercial releases a year, so there is a lot of volume and complexity that we're talking about here. That said, we do anywhere between 1,500 and 1,800 verifications a year.

I think what the Auditor General has pointed out and we have responded to is that we're probably biased a bit too much towards the random, and now we're doing more on the targeted side. That's why I was able to report in my opening remarks about some of the increased assessment revenues that we've been able to collect.

**Mr. Paul Lefebvre:** That leads me to my next question with respect to supply management. We have a supply management system in place to protect Canadian producers to ensure there's not an increase in volume and that people could just skirt the system. However, from what we've seen from the Auditor General's comments, basically in the system that we have, the checks and balances were not properly there. That obviously led to these results that we're seeing, which are very, very concerning. We legislated and have a system to protect our Canadian producers, but we rely on CBSA to ensure that happens. If it doesn't, the system is for nothing.

What do you say to that? Where are you guys with that recommendation?

**Mr. John Ossowski:** I agree that we could have done, and we are doing now, a better job of targeting this particular sector to make sure we understand the importance of that to the Canadian economy and to these producers.

**Mr. Paul Lefebvre:** Exactly what are you guys doing to address that? I know you talked about it a bit.

**Mr. John Ossowski:** We're doing more targeted verifications.

**Mr. Paul Lefebvre:** Basically on imports of poultry, on—

**Mr. John Ossowski:** Yes.

**Mr. Paul Lefebvre:** —beef and...?

**Mr. John Ossowski:** Absolutely.

Not only that, but also for the duties relief program, which is where you would get relief if the good were subsequently to be exported. If it was not exported, then we would go back and reassess and collect the appropriate taxes.

**Mr. Paul Lefebvre:** My concern was is in your comments at page 4, where you say, "In response to this recommendation, the CBSA acted quickly to strengthen pre-existing compliance measures." If they were "pre-existing" and strengthened something that already exists, I'm concerned that it wasn't properly done in the first place.

What did you do to strengthen that? Was it basically more specific audits in that—

**Mr. John Ossowski:** Yes. As I mentioned, we changed our bias from random to more targeted and focused on that area of concern, about which industry had expressed concern to us as well, before the Auditor General.

Honestly, what it's about for us every day is managing risk and the way we apply the resources at the border to the risks we're aware of. We rely on work such as the Auditor General's, consultations with stakeholders, and intelligence with our partners to decide where we can focus our efforts, but we will never be able to manage the risk down to zero.

**Mr. Paul Lefebvre:** I understand that.

You talked about the duties relief program. It says at paragraph 2.56 in the report:

In 2016, the Agency completed six compliance verifications of Duties Relief Program participants that import supply-managed goods and suspended the licences of all six participants because they did not comply with these program requirements.

Six out of six did not properly do this. If we had done 10 audits, would it have been 10 out of 10? It is extremely concerning that the management practised before would let these types of imports not be properly verified. As well, these were actually people who qualified for the duties relief program.

What measures have you put in place to ensure that this does not happen again?

**Mr. John Ossowski:** We're working very closely with Global Affairs Canada on this. Ideally, in the future we would look towards an automated system that would allow us to ping at the border to verify with the Global Affairs system that this licence is actually in place and the goods are being imported and declared properly.

We have an initiative called "single window" now whereby we basically are trying to be the "Publishers Clearing House" between what importers are bringing into Canada and the requirements of various government departments and agencies throughout the importation process.

We've on-boarded nine departments, I believe, and many members of the import community to try to automate the process so that everybody has that "back and forth" and we get real-time intelligence. We look to work with Global Affairs to on-board them into this initiative and automate it, so that at the point in time during which the good is still at the border, officers can inspect it and validate it, and so that I have real-time intelligence with respect to the participants of the duty relief program.



**The Chair:** We'll now turn to Monsieur Deltell.

[*Translation*]

You have seven minutes.

• (0920)

**Mr. Gérard Deltell (Louis-Saint-Laurent, CPC):** Thank you very much, Mr. Chair. I want to commend you on the quality of your French.

Gentlemen, welcome to your House of Commons.

There are three topics I would like to raise in this first round of questions. If necessary, we can continue the discussion later.

Mr. Ossowski, generally speaking, we see that your employees' workload is increasing because of the increase in trade. I would like to address the issue of online trade more specifically. I am talking here about purchases citizens make on the Internet from their homes. These goods have to go through customs, which has an impact on your work and your employees.

Has there been a major or modest increase in e-commerce, as compared to the business done between large enterprises, large plants and large markets?

**Mr. John Ossowski:** Thank you for the question.

First of all, I have to say that e-commerce is a challenge for the agency.

[*English*]

Right now, we have over 300,000 postal and courier shipments per day coming into the country. I would encourage members, if they get the opportunity, to take a tour, which I'm happy to facilitate, of one of our postal facilities, at which you can see the volumes.

What's hard about this, particularly with the e-commerce aspect of it, is that we don't often get, in the postal mode, the advance information and clear description of what the good is to allow us to make the proper assessment. That's particularly worrisome when it comes to the importation of synthetic opioids, such as fentanyl, which is something that's of huge concern for us.

**Mr. Gérard Deltell:** Such as what?

**Mr. John Ossowski:** Such as fentanyl, the synthetic opioids; it's a huge concern for us on a daily basis.

It's something we are working on with my Border Five colleagues. The Border Five is Canada, the U.S., Australia, New Zealand, and Great Britain. In fact, we just met in Sydney, Australia, to talk about how we can work more closely with the postal union and Canada Post to try to get better data in advance, so that we can target, because with that volume, it's simply impossible to keep up with the risk we're trying to mitigate. It really relies more on data.

It's less of a problem on the courier side, because we get good data analytics from companies such as FedEx and UPS, allowing us to target our efforts and manage the risk better. On the mail side, though, e-commerce is a huge problem.

**Mr. Gérard Deltell:** The e-commerce is still growing, isn't it?

**Mr. John Ossowski:** It absolutely is growing, in leaps and bounds.

**Mr. Gérard Deltell:** Is that your main issue to address right now?

**Mr. John Ossowski:** Health Canada has a lead right now, an initiative with respect to the fentanyl crisis. We're working with them to see how we can do it better. It's a broad issue, however. As I mentioned, we're working with our colleagues to the south and our other counterparts in the Border Five community.

**Mr. Gérard Deltell:** How will you address the new challenge beginning on July 1, 2018, with marijuana, when it will be legal?

**Mr. John Ossowski:** As you're aware, the government has tabled legislation on this, and we're preparing for our role. The importation and exportation of marijuana will still be illegal. There will be personal use issues. Our officers will be trained to do drug-impaired driving tests, as we do now for alcohol-impaired driving.

This will have a huge impact on us. To be clear, however, the importation and exportation, without proper permits in certain circumstances, will be illegal and will remain illegal.

**Mr. Gérard Deltell:** You spoke of its being a big issue for you.

**Mr. John Ossowski:** I think it's an adjustment. Our officers will be well trained to manage this, but this will be a big change for Canada and for all departments and agencies, quite frankly.

**Mr. Gérard Deltell:** How do you intend to address it? Do you have some training plan? Do you need to hire new people?

**Mr. John Ossowski:** In terms of the work we're going to be doing for cannabis, yes, there was a budget ask with respect to this, and we will be getting extra resources to deal with it.

**Mr. Gérard Deltell:** Let me get back to e-commerce. You said it is growing and that it is a big issue for you. What is the percentage of e-commerce compared with big business—the transfer between big businesses and shops and plants, all of that? What is the percentage of e-business? Is it 30%, 35% of your daily work?

**Mr. John Ossowski:** I don't have the annual comparison. I have the annual commercial amount, at more than 17 million releases a year. I know that on the e-commerce postal and courier side.... I could get back to you with some more detailed numbers concerning what we would call e-commerce. As I mentioned, between postal, which is more than 200,000 items a day by itself.... That's the majority of e-commerce stuff that I'm worried about, but it comes through the courier side too.

It depends on the way people choose to ship the goods that they buy. If you're willing to wait a long time, you can send it through the postal stream, but if you're willing to pay a little more for faster service, it comes through a courier stream.

● (0925)

**Mr. Gérard Deltell:** I think that closes my intervention on e-commerce, but as we can see, from your point of view, this will be a big challenge for you in the years to come. I think you and other departments, especially Canada Post, should work hand in hand and have a closer relationship. As this type of exchange grows and as more Canadians buy things over the Internet and from offshore, I think this will be the most important issue you have to address.

What is your plan to address it?

**Mr. John Ossowski:** We meet regularly with Canada Post to talk about it. Obviously, they're a critical partner for us in this. We work in their facilities, and we have done for many years. This is a new phenomenon for us both, in terms of the volumes and increases. We've installed, for the fentanyl piece, some detection equipment in these facilities so that officers can do the examinations in a safer way, to protect themselves and their colleagues at Canada Post.

As I say, this is an evolving issue. We're all dealing with it at the same time. Ultimately, we would like to see better data up front on everything that comes into Canada. As I say, I'd be happy to arrange a tour for you. You can see literally a conveyor belt and large containers called monos filled with little puffy plastic envelopes that might have an iPhone case, might have a battery, or might have 30 grams of fentanyl.

Thirty grams of fentanyl—one ounce—is 15,000 fatal doses, and it might not have any information on it of use for me to target it. This is a huge area of concern for us, and we're putting a lot of energy into working with Canada Post to figure it out, and also with importers and the countries that the material is coming from.

**The Chair:** Thank you very much. We'll now move to Mr. Christopherson, please, for seven minutes.

**Mr. David Christopherson (Hamilton Centre, NDP):** Thank you all for your attendance today.

This is a really bad audit, make no mistake. This was one of those in which, with every page I went through, I got a little angrier.

Let's start with that point, the focus of the audit, on page 2, paragraph 2.9:

This audit focused on whether the Department of Finance Canada, Global Affairs Canada, and the Canada Border Services Agency adequately managed customs duties according to their roles and responsibilities.

Under "Conclusion", on page 17, in paragraph 2.86, the Auditor General says:

We concluded that the Canada Border Services Agency could not ensure that all customs duties owed to the government were assessed. We also concluded that Global Affairs Canada and the Canada Border Services Agency could not ensure that the tariff rate quotas were respected. The Canada Border Services Agency allowed some supply-managed goods to enter the Canadian market without the proper duties being paid.

2.87 Furthermore, we concluded that the Department of Finance Canada suitably fulfilled its responsibilities in regard to customs duties, but needed to further review the relevance of tariff items to ensure that they met government objectives.

I want to go back to page 7, paragraph 2.83.

I read that just to say that in terms of the oversight, you failed. The main audit was to go and look at what I described, and you failed abysmally.

It's a shame. This is one of those times when I wish we had seven hours rather than seven minutes, because I have to tell you, it's just unbelievable how badly you're conducting your business there.

One area I want to focus on.... Help me, Auditor General, to understand how this works exactly. Apparently, when goods are brought in, there's a self-assessment done as to what's in there. Then, according to your report, there's a period of up to four years during which the importers can adjust their paperwork, and apparently that was done. In the period 2014-15, there were about 200,000 adjustments that resulted in \$136 million in refunds, and not surprisingly there were only 20,000 adjustments that resulted in payments of \$55 million to the agency.

Then the Auditor General concludes in paragraph 2.40: "In our view, this situation allowed importers to circumvent paying required duties."

Auditor General, help me make sure I have all my facts straight. Would you, in your language, describe exactly what's going on that is problematic? As I understand it, because the self-assessment was done, the agency can't go back and determine years later whether the adjustment matches with what was there, because it's all being done by the same person.

Auditor General, if you would put that in more technical terms for me, I'd appreciate it.

● (0930)

**Mr. Michael Ferguson:** Thank you, Mr. Chair.

I think that in the question you have more or less gone through the process. It's not in all cases, but in a number of cases the importers have up to four years to change the original classification of the goods.

As you said, that happened 200,000 times during that one year. It resulted in refunds. The difficulty is that when somebody comes along four years later and says, "What I told you I imported in the first place wasn't what I actually imported; I imported something else", that's four years down the road, and the goods are probably in many cases already in the market, have already been used, and may not even exist anymore. The difficulty is the difficulty of the department's being able to verify that.

We noted in the report that the agency itself indicated that the longer the amount of time that passes before somebody makes the adjustment, the more likely it is that perhaps the adjustment isn't totally the right adjustment.

I also, though, want to point out that yes, it was 136 million dollars' worth of refunds. The importer said, "I didn't import what I told you I imported originally; I imported something else, and that something else has a lower duty on it, so you owe me some money back for what I paid."

In the other case, there were also instances in which the importer came back later on and said, "I imported something else, and the duty is higher, so I owe the government money on that." To be totally cynical, which comes along with my job, I suppose, that may be a case of an importer's actually managing their float—

**Mr. David Christopherson:** —planning it.

**Mr. Michael Ferguson:** That's right.

—thus paying a lower duty originally and then making the appropriate adjustment in four years' time, but in the meantime having the benefit of not having to pay the full amount of the duty up front.

You have to look at both of those cases and try to get down into the details, to understand what's going on in both of those cases.

**Mr. David Christopherson:** Thank you.

Whoever feels like taking the lead on this, I'd like to hear how we got to the point that this is going on and exactly what you are doing about it and how long it is going to take.

**Mr. John Ossowski:** I'll jump in.

Yes, this was a specific recommendation in terms of the legislative provisions.

This is a legislative provision. You have four years to make an adjustment. We're working to understand what changes could be done to—

**Mr. David Christopherson:** I'm sorry to interrupt and I apologize for being so rude, but let me ask you this.

If I'm self-assessing and telling you what's in there and I can go back four years later, as the Auditor General just said, and you don't know what was in there in the first case, what's to stop me from having a little side business plan in which my intention is to make sure I scoop back those millions of dollars deliberately? Just conceptually, how could this possibly work?

**Mr. John Ossowski:** Well, just to be clear, if you were to come back, it's not just your saying, "I think I miscalculated; send me a cheque, please." It is, "Provide us the documentary evidence to do so."

We do a rigorous process. Absolutely, as the Auditor General has pointed out, there are misclassifications. They could turn out to involve money owed to us; they could turn out to be net zero; it could be a refund, as was—

• (0935)

**Mr. David Christopherson:** But only one-tenth of the time is it money back.

**Mr. John Ossowski:** I appreciate the Auditor General's point on this one, and we are looking at the four-year time frame to understand how, again with the dual role that we have in terms of facilitation, to best manage this and come up with a proposal, as per our response—

**Mr. David Christopherson:** What would some of that be?

I'm out of time?

**The Chair:** Yes.

We'll now move to MP Arya, please, for seven minutes.

**Mr. Chandra Arya (Nepean, Lib.):** Mr. Chair, I have so many things to ask, I don't know where to start.

Let me start with the Auditor General's note that despite "known non-compliance with import rules, the Agency did not monitor the

performance of customs brokers", and it has "rarely suspended a licence because of concerns about a broker's overall performance".

In your speaking notes, you said, "brokers are expected to provide correct declarations to the CBSA and the Agency then...assesses the declaration". You also said that to follow recommendation 1, you will start "consultations with impacted stakeholders, including customs brokers" and that you will complete them by September 2018. You also mentioned that you suspended the licences of eight importers in 2016.

There seems to be a big hesitancy on your part to take any action against the customs brokers who are non-compliant. What is your reaction?

**Mr. John Ossowski:** Once again we agree with the Auditor General's recommendations in this case. He made a couple of very important points, including the shared liability that customs brokers and importers could share in terms of the import requirements and paying duties and taxes. Right now, it's the importers' responsibility.

We're reviewing and have had some preliminary discussions with the Canadian Society of Customs Brokers to gain a better appreciation of their views on licensing regime reform, understanding that they play a key role in the commercial importation process. As well, concurrently we're in the procurement phase of a new assessment and revenue management—

**Mr. Chandra Arya:** I'm sorry to interrupt. I apologize, but I have very limited time.

My comment still stands. There seems to be hesitancy in taking any actions against the customs brokers.

I will move to another point, and go to Mr. Stewart. There are 1,973 items that generated only \$26 million. Then, for the up to \$200 being imported, the cost is enormous. The Auditor General says that the gross imported through postal services and valued at less than \$200 resulted in a net cost to the government.

Are you contemplating any measures to change or to address this?

**Mr. Rick Stewart:** If I understand your question, I think you have asked me two things. One is about the sheer number of tariff classifications that we have in the system, and the second relates to the de minimis threshold. Let me start quickly with the first one.

As the committee may be aware, the tariff classification structure is established by the World Customs Organization, and it's designed to ensure that there is a commonly understood system.

**Mr. Chandra Arya:** Okay, now I understand it. Thank you.

Could you answer the second part, please.

**Mr. Rick Stewart:** With respect to de minimis, I'm not going to speak to the agency's administrative cost to assess de minimis packages. What I will say is there are two dimensions to the considerations around what an appropriate de minimis threshold is. One is administrative efficiency and cost, but the second is the issue of tax fairness and the competitiveness of the Canadian industry.

**Mr. Chandra Arya:** Okay, I got it. So you're not immediately addressing that. I have very limited time. I have to go to two other things.

The Auditor General stated that the department refused to provide the OAG with the documents that contained particular analyses. You considered them to be cabinet confidences, especially with this \$20 minimum threshold.

Is it something that is absolutely covered under cabinet confidentiality as per the new order in council that was issued by our government?

**Mr. Rick Stewart:** The short answer is yes. The one document in question for our ministry was a document that was created before the date of the new access—

• (0940)

**Mr. Chandra Arya:** I would like the Auditor General to address this, please.

**Mr. Michael Ferguson:** Thank you.

I think there's not much more I can say, other than we asked for the information. The information was an analysis that was done under the previous government. It isn't covered by the most current order in council.

To this date, Finance has refused to give us that analysis, and we still don't have it.

**Mr. Chandra Arya:** Chair, I think we should look at this at a later date.

Thank you.

**The Chair:** You still have two minutes.

**Mr. Chandra Arya:** Thank you.

Mr. Stewart, I would like to go back to recommendation 2.63 on the duties relief program. Can you ensure that you are not going to stop agencies from implementing that recommendation?

If you want, I can read it, "making licences renewable, conditional on an importer's compliance record; and requiring a financial deposit...".

**Mr. Rick Stewart:** What I can say on that is we work very closely with CBSA on an ongoing basis on all of these issues, and we will work constructively with the agency.

**Mr. Chandra Arya:** Do you accept this recommendation?

**Mr. Rick Stewart:** Yes, we do.

**Mr. Chandra Arya:** Thank you.

There was another thing on agriculture which my friend is going to address.

Mr. Ossowski, on recommendation 2.35 regarding penalties on non-compliant importers, the average penalty was found to be \$151. The penalty for a first offence was \$150. I don't understand how it can be so close to the first offence penalty. How can you explain that?

**Mr. John Ossowski:** First of all, we accept the Auditor General's recommendations on this, and we will review all trade-related administrative monetary penalties. I think there is opportunity to adjust this.

Again, this is a voluntary compliance regime, and we're trying to do corrective measures. I agree that the numbers probably need to be looked at in terms of what is a meaningful deterrent.

**Mr. Chandra Arya:** Thank you.

**The Chair:** Mr. Arya, your time is up.

I will now go to Mr. Nuttall, please, for five minutes on the second round.

**Mr. Alexander Nuttall (Barrie—Springwater—Oro-Medonte, CPC):** Thank you, Mr. Chair, and thank you to members of the government for joining the committee today.

I want to pick up where Mr. Christopherson left off. It's actually quite surprising that it is so easy to skirt the system, in terms of bringing commercial goods into the country and of the duties that are payable.

My own experience crossing the border at Niagara with backpacks for kids in government housing is that it is actually very difficult to bring goods in. I've been charged commercial duties, sometimes personal duties, sometimes no duties, based on the agent or whatever at the border. That there are people going by with goods in their trucks that are eventually going to be changed so that they can skirt the number of dollars they need to pay up front has really two effects. The first one is that the Government of Canada could potentially become the largest funder of some of these businesses. Essentially, we're banking American or other businesses and helping them compete with Canadian businesses—which is the second outcome.

You have to balance the speed with which things can get across the border to ensure that it is a process that isn't too onerous and actually dissuades trade, with protecting the interests of our border, of our country, of our businesses. How do you foresee changing this system to balance these factors? The honour system apparently isn't working, in many cases.

**Mr. John Ossowski:** I would say that overall, understanding the complexity that my officers have to deal with on a day-to-day basis—we administer 90 pieces of legislation at the border and 17 million commercial releases—by and large I think that \$30 billion in duties and taxes reflects a job that they do very well.

Is there leakage? Yes. Is it as cynical as the Auditor General said? Potentially it is, but for me, quite frankly, it is about using the resources I have and applying them to where the risks are. If I have intelligence or if I have systems or information from partners about where I can better focus my efforts, I will do that, but it will never be reduced to zero.

• (0945)

**Mr. Alexander Nuttall:** That's understood. My background is in banking. I had writeoffs every single year, which I had, across the board, to take care of. I knew they were going to be there. I didn't know who they were going to involve, but I was going to have writeoffs. The same should be the case with CBSA. The same should be the case, quite frankly, with all of our departments.

What is your estimation, then, of what's missing, in terms of percentages or in terms of global dollars? Do you have that type of information? Is it measured? Without measurements in place, you're never going to be able to wean down and reduce those numbers.

**Mr. John Ossowski:** In order to come up with a global estimate of what might be missed, I think we'd have to do probably an unaffordable number of random verifications to get a dataset big enough to give us a sense of it. As I was explaining right now, because of the recommendations that the Auditor General has pointed out on the supply-managed side, we have moved from the bias more towards the targeted, because of these specific issues.

In a perfect world, I would have sufficient resources to do sufficient random as well, to give you that sense, but I don't have them.

**Mr. Alexander Nuttall:** I have one other question on this, and then hopefully I'll have time for another question.

If a company today were to bring goods into the country and either accidentally or on purpose put the wrong product or whatnot inside the vehicle, and the tariff regime changed—let's say with a trade agreement that's going to go in a different direction—and three years from now they come back and say that actually the goods were  $x$  or  $y$ , instead of  $a$  or  $b$ , which tariff regime would they be responsible for paying under? Would it be the current one existing today, or would it be one that potentially could change down the road?

**Mr. John Ossowski:** It would be under the regime at the point in time that the transaction took place.

**Mr. Alexander Nuttall:** If they decided to change it three years down the road, is there no penalty in saying that the tariff is now three times the...?

Okay.

**The Chair:** Thank you, Mr. Nuttall. We will come back. We have two hours today, so we'll be able to come back.

Mr. Massé.

[*Translation*]

**Mr. Rémi Massé (Avignon—La Mitis—Matane—Matapédia, Lib.):** Thank you, Mr. Chair.

Like my colleagues, I was particularly taken aback by the Auditor General's report. I did not sleep well. I don't know if I can use such language in the committee, but I'm damned angry.

I am angry for the following reason. Two years ago, some producers and farmers held a demonstration in my riding. There were 200 farmers who demonstrated in Matane. Six-foot tall men had tears in their eyes when they told me that they did not understand what was going on, and that they were losing income because they felt that dairy products were getting through at the border without permits. I answered that that was impossible and that our public servants and our government were taking all the necessary measures to ensure that we have adequate controls at the borders. I defended my position for weeks and months.

Today, I realized certain things from reading the Auditor General's report.

For instance, in the Auditor General's presentation, one can read this:

We observed that a significant volume of controlled goods entered Canada without the required permit. We estimated that in 2015, \$131 million worth of dairy, chicken, turkey, egg products and beef were imported without a permit.

That's shocking.

I was a federal public servant for 17 years. I was responsible for operations and programs and it was my responsibility to ensure that the programs and services that I managed operated within the framework I was given.

I must admit that words fail me.

Mr. Ossowski, what do you have to say to the farmers who will probably see that they were right to demonstrate?

• (0950)

[*English*]

**The Chair:** Mr. Ossowski, I'm not sure where Mr. Verheul would fit in on this as well. Some of the items you're referring to...

Maybe you could give us a little explanation of some of the items that would be involved here. For example, if we're talking cheese, it's not just blocks of cheese.

I'll give you extra time, because I'm going on about this, but I think we need to understand a little better how this type of product comes across. It doesn't come across as cheese. It may come across as a pizza additive on the top when there's a cheese makeup in it.

That's my understanding. If I'm wrong, correct me.

[*Translation*]

**Mr. John Ossowski:** Thank you for the question.

[*English*]

As I said in the opening remarks, we take the recommendations and findings of the Auditor General seriously. We understand the importance of the supply-managed sector. We've done more in terms of our targeting efforts as a result of this and, as I've mentioned, in terms of some of the changes we've made to move more towards targeting.

Milk is a particularly sensitive issue, particularly milk proteins. We're looking to do more sampling, because—Brad may be able to help me here—essentially the customs tariff, in terms of diafiltered milk and milk proteins that may be used in cheese or cheese products.... Industry recognizes, as we do, that it's around 85% protein content that needs to be in there. We need to do sampling of this material and do the appropriate duty adjustment, if it doesn't meet that threshold.

This is another area in which we're making more efforts. We accept the Auditor General's recommendations and we will do the best we can.

[Translation]

**Mr. Rémi Massé:** I have trouble understanding why we need a report like this for the CBSA to react and take the necessary corrective measures. And yet, there are some highly competent and dedicated people in your agency who want to ensure that they fulfil the mandates they are given. Let me repeat that I am appalled. It's almost as if you needed the Auditor General's report to get you to react.

I also want to thank the Auditor General and his employees for enlightening us about the situation. This ensures that when events like these occur, the departments and agencies can take the necessary corrective action.

Mr. Ossowski, I would like to know your opinion about the measures you took or will take to ensure that this type of situation does not reoccur. When another audit is done in two or three years, we have to make sure that we are not faced once again with the same situation in another border control sector.

[English]

**The Chair:** Mr. Ossowski.

**Mr. John Ossowski:** Thank you for the comments on the professionalism of our officers. They care about this, and we do as well.

This is not something that we're just reacting to as a result of the Auditor General's report. We've been dealing with the importation of milk issue for years. This has provided some more evidence that we need to enhance our focus on it, particularly with respect to the recommendations that the Auditor General has made. We have a management response plan in place, and we are adjusting.

We do the best we can to manage the risk and complexity every single day. As I mentioned, there are 17 million releases and border volumes that are increasing in every mode. We are trying to manage the risk with the resources that we have available to us.

I mentioned, partly in response to the other member's question with respect to our assessment revenue management system, that it will help us with respect to how we interact with importers and manage this. This is in the procurement stage, and I hope to be in a position in the coming years to do a much better job than this.

**The Chair:** Thank you.

We'll now move to Mr. Nuttall.

**Mr. Alexander Nuttall:** Thank you, Mr. Chair.

I would like to follow up where I left off. Does the United States offer some of the same information that the Auditor General has been able to bring forth in his audit in terms of trade going across the border, where Canadian companies either mislabelled or later changed the determination of what was in the trucks?

•(0955)

**Mr. John Ossowski:** I'm sure they do, but I don't know the specifics of their particular program.

**Mr. Alexander Nuttall:** Mr. Auditor General, were you able to do any or have you seen any statistics from our friends south of the border, to see whether this is out of line with what...?

**Mr. Michael Ferguson:** We didn't look at what was going on in the U.S. We only looked at what was happening coming across into Canada.

**Mr. Alexander Nuttall:** Thank you.

It would be interesting to understand how far outside of the norm this is. I would guess that somebody at the table would know what the policy is when Canadian companies are transporting goods to the United States. Do they have the same sorts of freedoms, where there's a four-year period where they can change what was on board?

**Mr. John Ossowski:** I would have to get back to you on that one.

**Mr. Alexander Nuttall:** Okay.

You said at one point that it was unaffordable to go after the relatively small number of issues that equate to just over \$100 million. I'd like to raise a couple of things. First of all, with all due respect to the Auditor General, I think the resources they have to actually check every single item would be similar to the difficulty you're describing in terms of being unaffordable. It's probably the tip of the iceberg.

At what point do you say we need to do this in order to enforce the border, in order to send a message and maintain the credibility of the border?

**Mr. John Ossowski:** We work closely with our colleagues at Finance and Global Affairs in terms of understanding where they think we need to shift our efforts based on the broader administrative policy program framework. We do our best to enforce the laws that are in place at the time of the importation. As I said, I'm managing risk, and I don't think you'd want me to stop every single shipment at the border.

We're always looking for that very delicate balance between risk and facilitation. We're willing to take feedback and adjust accordingly.

**Mr. Alexander Nuttall:** Have you ever put a work plan together to try to deal with this issue?

**Mr. John Ossowski:** We have a management response plan for all of the recommendations here in the Auditor General's report.

**Mr. Alexander Nuttall:** Do you know what the cost that makes it unaffordable is?

**Mr. John Ossowski:** In terms of the true breadth of my stopping everything? My hypothesis is that you don't want me to come up with that number.

**Mr. Alexander Nuttall:** Right. I understand you're not looking to stop everything, but I mean in terms of perhaps cracking down on those that are most prevalent in the Auditor General's report, and targeting those players that may, as I've heard said a few times, be purposely doing this.

**Mr. John Ossowski:** The Auditor General identified about \$168 million in leakage. On the chicken side, we've recovered and assessed \$72 million, and on the duty relief \$38 million. We're making very good progress, and other verifications are still under way.

**Mr. Alexander Nuttall:** Do we charge interest charge on top of the...? What is the interest charge?

**Mr. John Ossowski:** Brad, do you know?

**Mr. Brad Loynachan (Director, Trade Policy, Canada Border Services Agency):** Depending on when payment is made, once the importers have been notified of non-compliance and revenue owing, it will either be a prescribed or specified rate. That obviously shifts with government rate. Usually the specified rate is 6% higher than the prescribed lower rate.

It doesn't have to do with non-compliance. It has to do with when the payment is made, once the importer is notified that they have an outstanding debt.

**Mr. Alexander Nuttall:** If I have no outstanding debt as of today, in chicken, what would my rate be that you're charging me as of tomorrow, keeping in mind the huge...?

**Mr. Brad Loynachan:** Whatever the Government of Canada or Bank of Canada prescribed rate is at the time you're notified.

**Mr. Alexander Nuttall:** Plus 6%.

**Mr. Brad Loynachan:** Plus 6% only in instances where in fact you haven't made payment.

**Mr. Alexander Nuttall:** Just to be clear, the Bank of Canada prescribed rate is what we're charging, except in some instances.

**Mr. Brad Loynachan:** Correct.

**Mr. Alexander Nuttall:** Possibly 1%, and possibly 1.5%, when their banks and our banks charge far more. No wonder they're doing it. Increase your interest rates, and you'll fix the problem.

• (1000)

**The Chair:** Thank you.

We'll now move to Mr. Chen, please.

**Mr. Shaun Chen (Scarborough North, Lib.):** Thank you.

I'm looking at this report and I have many concerns, as some of my colleagues have already expressed. One of them is the fact that 20% of goods crossing the Canadian border are misclassified. For example, \$136 million was refunded to importers in one fiscal year due to retroactive changes. I am looking at the fact that when there is a non-compliant importer, the penalties are so low: \$150 for the first offence, \$225 for the second offence, and \$450 for the third and subsequent offences.

To me, there seems to be a better incentive for importers to potentially misclassify items. Once they have crossed the border and the Canada Border Services Agency has not inspected them, they can then come back four years later. In the absence of government documentation, we are then relying on the importer's documentation, and then we are paying out to the tune of \$136 million in one fiscal year.

I know the agency is looking at reviewing the penalty, but we need to really strengthen the fact that we need to deter people from making these types of misclassifications.

When it comes to the penalties, what progress has the agency made in terms of where that will end?

**Mr. John Ossowski:** As I mentioned, no refund is given without documentary evidence, and it's not just the importer's documentary evidence. We swim upstream to the supplier side and actually validate what was being imported. Just to be clear, it's not just you

make a request and you come in and change things and get a refund cheque. We actually do the due diligence to validate that refund.

**Mr. Shaun Chen:** Can you give me an example? You're saying you would verify with the supplier. If the supplier is 5,000 kilometres away, what type of communication or evidence would you seek from them?

**Mr. John Ossowski:** We would do a verification of the books and records. For example, the \$72 million that I referred to on the chicken re-verification assessments that we've done were books and records verifications, and they resulted in \$72 million of revenues to the crown.

**Mr. Shaun Chen:** You're still relying on documentation from third parties, right?

**Mr. John Ossowski:** From the company and from the supplier to validate.

**Mr. Shaun Chen:** I'll go on to another issue. This goes to what my colleague, Chandra, was referring to in terms of the disagreement. There was a very clear disagreement. On page 17, the Auditor General reports that the agency says that administering duties on items valued at less than \$200 would result in a net cost to the Canadian government, whereas the Department of Finance then says that increasing the threshold to \$200 would have cost the federal government \$66 million. This is perplexing because this is a pretty huge gap. On the one hand we have Finance saying if the threshold is increased to \$200, it will be a net cost, and on the other hand we have the agency saying that's not the case.

I know the Auditor General has pointed out here that the explanation was that it's a cabinet confidence. I would like to know from the folks at Finance, in what ways did you calculate this amount differently than the agency did?

**Mr. Rick Stewart:** I believe the agency has never indicated that there wouldn't be a revenue loss from raising the de minimis threshold rate. The \$66-million estimate is the amount of tariff revenue that would be collected on products coming into the country valued at between \$20 and \$200, which we would no longer be collecting. It's a forgone revenue collection of both customs duties and sales tax. In addition to the federal costs, there are also provincial sales tax revenues that would not be collected if we waived the collection of tax up to \$200 from the current \$20.

• (1005)

**Mr. Shaun Chen:** You're saying that the forgone revenues would total \$66 million. We all know that in order to generate revenue, you need to have resources and expenses. I'm still not clear, because it says here on page 17 of the Auditor General's report, at paragraph 2.85, "The Department of Finance Canada informed us that in its analyses, it also considered the Canada Border Services Agency's administrative costs for collecting revenues and its enforcement capacity."

**The Chair:** You're going to have to hurry, Mr. Chen.

**Mr. Shaun Chen:** What you just said doesn't jibe with what's here in the AG's report. Can you explain?

**Mr. Rick Stewart:** What I'm saying is that we indeed consider the costs of administering tax collection. What I mentioned earlier in response to another member is that administrative cost-effectiveness is only one consideration in determining what an appropriate tax level ought to be. There are issues of equity and fairness to the Canadian producers and Canadian retailers, and that tax fairness consideration is an important element that goes into the determination of what an appropriate customs duty de minimis threshold should be. It's more than just about administrative cost.

**Mr. Shaun Chen:** Thank you.

**The Chair:** Thank you, Mr. Stewart.

Mr. Christopherson.

**Mr. David Christopherson:** Thank you, Chair.

I have a quick question to follow up on a question my colleague, Mr. Chen, asked about whether or not you demand documentation when you go to upstream suppliers. Do you have the legal right to demand documentation?

**Mr. John Ossowski:** With foreign suppliers it's voluntary, but for domestic it would be required.

**Mr. David Christopherson:** You have the legal right to demand it?

**Mr. John Ossowski:** Yes.

**Mr. David Christopherson:** Good, thanks.

I want to come back to an issue that I have of limited time, but given how vast the problems are, this really.... You heard all my colleagues. Nobody really knows where to start, it's so bad. Before I go to another issue I want to raise, in case we sort of miss the trees here, I want to ask the Auditor General, of all the findings we've had and the discussions we've had here this morning, are there any priorities that we haven't yet touched on that you'd like to make sure we spend at least a moment focusing on? Sometimes we can get sidetracked on issues.

**Mr. Michael Ferguson:** There's been a lot of talk about the gaps we found in the enforcement of the rules and the things that can be done on the supply-managed and the duty relief. We've heard from the CBSA about the types of steps they're taking on that.

The bigger picture on this, again, is needing to stand back and ask if this whole system is actually enforceable. Particularly, I'm thinking of the packages coming in through the mail.

It's great to have a system that says we charge duty on anything over \$20, but if that can't be done, if the resources aren't there, and if the effort to actually do that is such that not every parcel over \$20 that should be charged duty is going to be charged duty, then Canadian businesses are going to say, "Wait a minute. This isn't the system we thought we were operating under. Things are coming in worth \$100 or \$200 and not always being charged duty, and that's not the system we thought we were working under." Right? There's really very little that the CBSA can do in this case. In some of this, they're being asked to perhaps enforce a system that I don't know they can actually enforce.

The problems we found on the supply-managed, the duty relief, and those types of things are things they can fix. We heard today that they are in the process of trying to fix those. But there are other parts

of this system where there has to be a real consideration of whether the system can actually be enforced as it is written on paper. What good is it to have a system where Canadian businesses think there is one system that is going to be enforced, but in actual fact, in some cases, it can't be enforced that way?

• (1010)

**The Chair:** The time is up, but I just want to go from there. Sometimes we put a lot of questions to the department, even back to our Auditor General. Is this something that really should be pointed toward us as legislators?

They've been given this system. To comply 100% is virtually impossible. You have that on one hand, and on the other the political consideration of the consumer, on this side, who is shopping e-commerce. Then you also have our industry or our retailers, who are setting up businesses and trying to succeed. We have that to consider, as well.

How much of this would actually fall into the laps of the legislators, or Parliament itself?

**Mr. Michael Ferguson:** Again, there is always a balance in every system.

Parliament has to establish the requirements: what is it that Parliament wants to be controlled at the border, and what are those measures? Once those measures are established, there has to be a way of making sure the organizations that are having to enforce it have the resources to enforce it.

I don't know how many resources it would take for the CBSA, Canada Post, or whoever to make sure there is a reasonable assurance—it's never going to be perfect—that most packages coming across the border, through the mail for example, over \$20 that should be charged duty are, in fact, being charged duty.

In establishing a system, there also needs to be appropriate consideration of the resource side of actually enforcing that system. In some of this, my opinion is that there may have been a bit of an imbalance in that. Again, that's not on things like the supply-managed and checking the volumes, because that is something we felt they could actually do and could improve on, and we've heard today that they've made some improvements in that. In terms of some of the other aspects of the system, though, and I'm particularly thinking of the de minimis, there needs to be a consideration of.... It's not good enough to say that this is going to be the system, if that system can't actually be enforced.

**The Chair:** Thank you.

I'll go now to Ms. Shanahan, please.

**Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.):** Thank you very much, Mr. Chair.

Thank you to all the witnesses here today. Again, we had a very informative report this morning.

I'm just thinking back to my MBA case competition days. This would have been one heck of a juicy case for really fresh eyes and thinking on what is, as the Auditor General has referred to, a whole new way of doing business. It's a new economy, in other words.



So many of the issues that we're talking about here this morning have to do with culture, how the business culture is changing, the import-export, and our relationships in an economy that is *à la fois* a virtual economy but also requires a physical on-site actual verification.

Just to put it on the record, my riding of Châteauguay—Lacolle has, I believe, one of the busiest border crossings. Am I correct? Is it, with Windsor, Mr. Ossowski?

**Mr. John Ossowski:** It's definitely in the top 10. I don't know exactly where it ranks in terms of commercial volumes, but it's definitely high.

**Mrs. Brenda Shanahan:** Yes, and certainly we've had some action of a different nature there in recent months.

When I'm speaking to my citizens, they know what's going on at the border, either because a lot of them work there or they have families...a "Bélangier" on our side is a "Belanger" on the other side. They know what's going on. On that diafiltered milk thing, that was definitely something that my folks knew about and reported. Do you have a tip line? When you say you heard from industry.... How long does it take for information to filter from the ground to action at the agency?

**Mr. John Ossowski:** Absolutely we have a tip line, and absolutely we consult with industry regularly and have very open channels of communication. We do everything we can to sort of shift our efforts to make sure that we're dealing with the risks as we are made aware of them.

•(1015)

**Mrs. Brenda Shanahan:** Okay. I do appreciate—I think we heard that in Mr. Verheul's testimony—the fact there is a good news story here, and that is the sharing of information now between the Department of Agriculture and the CBSA. Can you expand a bit on that?

**Mr. Steve Verheul:** Yes, certainly. We require individual permits for any imports of any of the supply-managed products. Given that we do this on a separate track, we now have been providing regular information to CBSA to allow them to make sure they can track that at the border, to ensure those products coming across do have a valid import permit in order to be imported into Canada.

**Mrs. Brenda Shanahan:** Has that resulted in a net positive benefit to the crown?

**Mr. Steve Verheul:** Well, we only put this most recent process in place in September, so we're still waiting to assess the results. We certainly have that expectation.

**Mrs. Brenda Shanahan:** Okay.

To go on, then, to the challenge at hand that the Auditor General brought up in terms of really what is this modernization of this system, can we talk a bit about the trusted trader program? Certainly for my producers in my riding—we're one of the biggest vegetable producers in Quebec, and that business is going very well—there was a problem early in our mandate that had to do with a very outdated kind of paper-based certification process, which fortunately we were able to resolve in a timely manner. It just brought to light that there were processes in place that really were out of date.

Who can speak to that? Mr. Ossowski.

**Mr. John Ossowski:** We do have a trusted trader program and we have other tools available to us in terms of what's actually on the manifest of the vehicle. In the future, probably not too far down the road, you could see a case where—I'll take Windsor as an example—an auto part, I understand, could cross the border seven times during the production of a vehicle.

**Mrs. Brenda Shanahan:** Yes, but how can we incentivize? My understanding is that there's software involved. At one point, we heard this in OGGO, the government operations committee. There is software involved, and it's still bulky and unworkable, and there are still these paper-based processes. How can we move this process along in a speedier fashion?

**Mr. John Ossowski:** I think you raise a good point, which is that when we put in our requirements, we have to make sure that we consult with industry and don't put in a system that's overly complex, so that they can actually build the systems to interface with us properly. As you're aware, some of these businesses might be running their whole operation off their iPads, so we can't necessarily.... There are very different levels of complexity in who we're working with in the stakeholder community. We consult with them as we develop these systems and processes to make sure that there is not an unfair burden on the small versus the large, but it is a complex ecosystem that we're talking about here, so we do our best to work with them as we make these changes.

**Mrs. Brenda Shanahan:** Excellent. We need to modernize on the technical side, but also, people on the ground, eyes and ears on the ground, are very important.

Auditor General, I'd like to ask you about recommendation 2.41 regarding the four-year period when the importers can make changes. Apparently, in the action plan they have that this "will be completed by December 2019". Why would it take 30 months to comply with this recommendation?

**Mr. Michael Ferguson:** Again, this is about the four-year period. I think this is something that would require some sort of a legislative change, probably, and that type of process requires consultation and those types of things. I don't know what the exact period of time would be, but certainly there would be a number of steps, such as consultation, that would be involved in making that type of a change.

**The Chair:** Thank you, Ms. Shanahan.

We'll now move to Monsieur Deltell, please.

**Mr. Gérard Deltell:** Chair, I want to get back to the point that I raised a few moments ago about the e-commerce and the new area that is rising up, and also to what Mr. Chen said a few minutes ago about the

[*Translation*]

\$20 minimum threshold. As Mr. Chen mentioned, the agency and the Department of Finance are not in complete agreement.

I could have asked both to explain their points of view but since we have little time, I'm going to put the question to the arbiter.

[*English*]

Mr. Ferguson, what do you think about that? Who is right?

• (1020)

**Mr. Michael Ferguson:** It's not really a disagreement. It's a matter of two different parts of the calculation. On what Finance has calculated here, what we're saying is that Finance calculated the loss of revenue, which was \$66 million, but what they didn't include was that there would be less administrative cost incurred, or they didn't give us the information about how much administrative cost savings there would be.

In what Finance gave us, they provided us only how much the revenue would go down. They didn't provide us how much administrative costs would go down. All we had were some other analyses that CBSA had done before, which had shown that, for example, at \$100 it costs them more to administer a \$100 level than they actually collect.

The reason it looks like it's two different calculations is that when we asked Finance to provide us the information about how much the reduction was—and again, I think we've heard today that they did that type of calculation—they didn't provide us that information on the reduction of the administrative costs. They just provided us the information on the reduction of the revenue.

**Mr. Gérard Deltell:** Okay, but the issue is the same. Do we have to raise the *seuil minimal*? Do you think we should raise it?

[Translation]

**Mr. Michael Ferguson:** We came to the conclusion that the Department of Finance should review the threshold and determine whether it is reasonable. It is important to consider all aspects of this problem, including the income and the administrative costs. As we mentioned earlier, other questions must be taken into account such as the impact on imports.

It is not up to me to determine if a change is desirable, but in my opinion it is important that the Department of Finance conduct a thorough analysis. We did not have access to all of the information produced in the past in this regard.

**Mr. Gérard Deltell:** As Mr. Ossowski mentioned earlier, e-commerce is developing quickly and it is clear that nothing is going to stop it. It may reach a plateau at some point but that day is still far away. Frankly, I can't see when that plateau will be reached, since people are so fond of this technological convenience.

I understand your reserve and I respect it, Mr. Ferguson. You present the facts objectively. Consequently, I should direct the question to Mr. Ossowski in order to obtain a more engaged response.

Mr. Ossowski, because of the constant increase in electronic commerce, do you think we should increase efforts and personnel to deal with the issue of the minimum threshold?

[English]

**Mr. John Ossowski:** I think this really is a question for the Department of Finance. They establish the policy. They would look at the historical nature in terms of when it was established and at the conditions now and would decide if an adjustment needs to be made.

As I mentioned, the volumes are high. Particularly on the postal side, they've grown considerably. As I've mentioned, there are many risks in the postal mode that we're dealing with, such as fentanyl.

This is just one aspect of it, and it really is a policy issue that I'll defer to my colleague on.

[Translation]

**Mr. Gérard Deltell:** I would also like to hear your opinion, Mr. Stewart.

[English]

**Mr. Rick Stewart:** I have two quick observations.

One is that we rely on CBSA, of course, to determine what their administrative cost is. Coming back to this question of what the right level of *de minimis* is, we regularly get representations both from importer groups, which are seeking consideration of a higher threshold, and from domestic retailers—the Retail Council of Canada and the Canadian Federation of Independent Business—which have concerns about competitiveness and a level playing field. This is not a new issue for us.

With respect to the committee, I think, Mr. Chair, the framing that you noted a few moments ago, about this trade-off between the cost of administering a system and the inherent protections a system offers in the interests of both consumers and the domestic producers and retailers, is a policy question that I'm not at liberty to discuss today.

It essentially boils down to a policy question: what is the value of a system that provides that flexibility to facilitate consumers' wishes for cheaper products while still protecting a system that allows Canadian retailers and producers to be competitive and vibrant? That's the essential policy question, and the price determines that balance. The price falls out of that balance.

• (1025)

**The Chair:** Yes, and can I just let every member of Parliament know that regardless of what changes would ever be made, there would be thousands of letters on both sides of the issue coming into your offices. I remember one day when 10 shoe retailers in my constituency called me about *de minimis*, while on the other hand you have the consumer, the customer, and they're getting used to shopping online. This is a massive political consideration, too, for small business and consumers.

Mr. Ferguson, please, and then back to you, Mr. Deltell. I stole your time.

**Mr. Michael Ferguson:** Again, I would just like to mention that we're not suggesting the threshold needs to change, and we're not suggesting that it's not okay to have a system that costs money. Our issue is that if there is a system on paper that says all things imported through the mail or by courier with a value over \$20 should have a duty charged on them, if that is what the system is, then there need to be the resources in the system to make sure that it is in fact enforceable.

We're not trying to say where it should be, or whether there should be a change, or how you come out on the balance of that policy question. What we're saying is—and again, understanding that we know you can never get to 100%—there needs to be a much higher expectation that in fact, yes, the system is being applied at the \$20 level, whereas right now I think it's clear that the system is being applied at higher levels in some instances.

**The Chair:** Did you want to continue with your statements? You have 40 seconds left.

**Mr. Gérard Deltell:** It reminds me of the good old spirit of too much taxation kills taxation, so I think we are on the same page there. As the deputy minister said, this is a political issue, and unfortunately I have no more time to say where we stand on it.

**The Chair:** Thank you.

Mr. Christopherson, please.

**Mr. David Christopherson:** Thank you, Chair.

Just to pick up that last one, if I understand it, the essence of this is that the government is saying on paper that by law they should be doing the \$20, but in reality they're using another number because the \$20 is impractical from their point of view.

**Mr. Michael Ferguson:** Again, they are trying to enforce it to \$20, but they can't enforce it to \$20 all of the time.

**Mr. David Christopherson:** They don't have an informal system of using a larger dollar figure? They just fail at the \$20 and that's it?

**Mr. John Ossowski:** I'm not aware that we have another number in play that we use as a benchmark. I think it's really a function of volume and complexity, and they do the best they can.

**Mr. David Christopherson:** That would almost be better. As much as it's not 100% in terms of what we do, at least it would make more practical sense.

If I can, Chair, and I know we're down to limited time, I want to spend just a moment on an area that my friend, Mr. Arya, got us into. That is the refusal of information.

Mr. Stewart, you started to give an indication that this information is not captured by the most recent order in council. Again, back up. It's public already. People know that we have a battle going on in terms of fuel subsidies, and the Auditor General is still not able to get all the information. I'm saying this publicly because that's out there. We're in camera now dealing with the parliamentary law clerk and others as we go through the legality of that. Obviously it's a big issue when the Auditor General says he's entitled to this information and that he would please like it, but the government says no. That's a problem. There are piecemeal fixes, and I won't get into the complexities of it. Mr. Stewart, you were about to say that the order in council that was issued recently to resolve the Auditor General's need for information back to when this government took power, I think we're into another issue again in which the information actually goes into a previous government, and that creates an artificial wall where the bureaucratic world says no. That's kind of where the rub is.

Could I have your comments?

• (1030)

**Mr. Rick Stewart:** Mr. Chair, I think you can appreciate that my obligation is to provide the Auditor General with documents that he's entitled to as dictated by orders in council and his act, and I'm obliged to respect the limits of those orders in council.

Your broader question of whether that limit should be on a different date or exist at all, that's a question I'm not in a position to

respond to directly. That's a question you'll have to direct to the Privy Council Office.

**Mr. David Christopherson:** Yes, okay.

I was just making the case, Chair, that, again, I've made the argument that the two outstanding issues that exist, the legal matters we have are, without divulging any confidences, the instant case of trying to get the information pre-2015, that remains an outstanding issue. Then there's the overall issue that the Auditor General has been asking for for years, which is a change in language so we don't get into this each time. So far every time we've gotten into it, we've had a one-off resolve with an order in council, but it still leaves more questions because of the detailed nature of the order in council naming certain documents certain things. So we still have an issue in Canada—as proud as we are of our auditing system, and we all crow about having clean audits and everything—right now, we have a serious issue in which the Auditor General is asking for information that he deems is within his legal mandate, and the department is saying they aren't going to give it. That's as far as I can go now because we're in camera arming ourselves with the legalities of all of this, but it is a big deal. The Auditor General is not looking for any cabinet secrets. He doesn't want any of that. He just wants numbers. He wants his analysis.

If you want a chance to say something, I'll let you have it, and then I'm going to move on, if I have time.

**The Chair:** Mr. Stewart.

**Mr. Rick Stewart:** Thank you, sir. I would appreciate adding something, if I may.

The Auditor General was seeking information in order to determine—as we understood what they were seeking—whether we turned our attention to the question of administrative costs as we considered the appropriate level for the de minimis threshold. While we were not permitted to share a single document in question, what we were able to provide, within the flexibilities that we have, was a series of email transactions between ourselves and the agency that indicated there was an engagement and a dialogue back and forth with the agency that pertained to this question of administrative costs, as we were looking at the issue.

It's not a perfect solution for what the Auditor General was looking for, but in our mind, it was an evidence track that at least suggested that indeed we had turned our attention to the question. It did not provide information on what our judgment was out of it, but it at least, in our mind, demonstrated that we did turn our attention to it.

**Mr. David Christopherson:** That's going to require, Chair, an opportunity for the AG to respond, if he wishes, please.

**Mr. Michael Ferguson:** Indeed.

Well, I think if our evidence on issues about whether departments are doing analyses is about whether there was email correspondence back and forth that talked about there being some analysis done, that's not the depth of evidence, let's say, that we need to be able to conclude whether analysis was at an appropriate level.

So, yes, and we said in the report that they indicated to us that they had done the analysis, which we wouldn't normally put in a report if that had just been a verbal "we did something". We put that in the report because, yes, there was some evidence that there was information that existed, but at the end of the day, the point is still the point. We needed to see the actual analysis to be able to conclude on this.

**Mr. David Christopherson:** That's right, and this remains an ongoing issue for us.

I would say, Chair, that until we resolve the issue of macro language, this public accounts committee going forward in the foreseeable future is going to continue to run into this rub. That one is now with the fuel subsidies issue where we're still in crisis.

Am I out of time now?

**The Chair:** Yes, you were a few minutes ago.

Mr. Stewart, is it your deputy minister or you who would deem this as a cabinet confidence, or is it actually the Privy Council Office that would say, "Here's the line. The analysis, the numbers, the particulars are the cabinet confidence"?

**Mr. Rick Stewart:** It's a determination that we make in collaboration and consultation with the Privy Council Office.

**The Chair:** Thank you.

Now we will go to Mr. Lefebvre, please.

•(1035)

**Mr. Paul Lefebvre:** Thank you, Mr. Chair.

It's been a very interesting few minutes.

I just want to get some clarification. Mr. Chen raised the issue with respect to the penalties. In the Auditor General's report, it says that the average penalty was \$151, which is almost identical to the penalty for the first offence which is \$150. Were the vast majority of the penalties in this report for first-time offenders? What is the percentage of who these penalties are applied to?

**Mr. John Ossowski:** I will turn to my colleague on this one.

**Mr. Brad Loynachan:** You are correct that, in fact, it's an escalating penalty regime. In that regard, first infractions in some cases are warnings without a monetary assessment, and then it will build for repeat contraventions of the same nature.

**Mr. Paul Lefebvre:** All right, so there are two things. I've asked what the percentage of first-time offenders is that this average goes to. After that, does it stop at that point? Is there a mechanism to follow if they are repeat offenders as well?

**Mr. Brad Loynachan:** Certainly. It's an automated system within the CBSA. For the same importer for the same contravention, the system will automatically trigger the higher level penalty for subsequent infractions.

**Mr. Paul Lefebvre:** You talked about the warnings. You have a warning system before a penalty. Is that correct?

**Mr. Brad Loynachan:** In some instances, yes. Depending on the nature of the infraction, there may be a zero-rated penalty, or it might go right to a dollar or monetary assessment.

**Mr. Paul Lefebvre:** Is a zero-rated penalty a warning?

**Mr. Brad Loynachan:** Yes.

**Mr. Paul Lefebvre:** Okay.

Are you keeping data on who is committing these,, who you are warning? How many of these warnings are you issuing, compared to...? What are the averages? I'm not sure I saw the number of how many penalties are actually assessed. Can you provide us with those numbers?

**Mr. Brad Loynachan:** Sure. In 2016-17, the agency issued a total of 26,000 administrative monetary penalties totalling \$11.4 million of revenue. On the trade-related side—so those linking to revenue evasion—we issued 709 AMPs, totalling almost \$1 million in assessments.

**Mr. Paul Lefebvre:** How many warnings did you give?

**Mr. Brad Loynachan:** I don't have that breakdown, but we'd be happy to provide that.

**Mr. Paul Lefebvre:** It'd be interesting to see that because, in essence, if we don't follow the first time or the warnings, and after that we say that we'll penalize them, how can we be sure that we properly capture the data?

**Mr. Brad Loynachan:** I will just clarify that if, in fact, we issue a warning, it is in the system.

**Mr. Paul Lefebvre:** You should have that data then.

**Mr. Brad Loynachan:** Yes, I just don't happen to have it with me.

**Mr. Paul Lefebvre:** You don't have it with you. That's okay.

**Mr. Brad Loynachan:** We would automatically, if there was a subsequent infraction, revert to a monetary assessment.

**Mr. Paul Lefebvre:** This is my last question.

I would assume that an importer that has been assessed a penalty is more scrutinized going forward after that penalty.

**Mr. Brad Loynachan:** As all of you would be aware, the CBSA risks all goods entering Canada, and therefore, compliance records are taken into consideration.

**Mr. Paul Lefebvre:** With regard to these six importers that were fined, that were found to have used this duties relief program, and that were obviously completely offside, how are they now treated as they import their goods? What has changed for them?

**Mr. Brad Loynachan:** Essentially, due to their non-compliance to the duties relief program, they have either been suspended or revoked from the program, which means that they cannot import goods without those relieving provisions. They now import goods by paying regular duties and taxes at points of entry. If, in fact, they can demonstrate that those goods were further worked and exported, then they would be eligible for the appropriate refunds or drawbacks.

**Mr. Paul Lefebvre:** Therefore, they are further scrutinized than before.

**Mr. Brad Loynachan:** Of course, and they've lost privileges in terms of this program.

**Mr. Paul Lefebvre:** Privileges. Okay.

Madam Shanahan wants to....

**The Chair:** Madam Shanahan, quickly.

**Mrs. Brenda Shanahan:** I want to get back to the idea of whether we really know what the volume is of the potential revenue that we're talking about. It just strikes me that this collection of tariffs and so on is revenue to the crown. We'll miss some if we do increase the de minimis to \$200, but we don't know how much it would cost us, on the other hand, to either enforce more or to enforce less. It seems to me there are some big questions still out there. I would like to hear from Finance and from the Canada Border Services Agency on that, because this is really a business proposition.

• (1040)

**The Chair:** Mr. Stewart.

**Mr. Rick Stewart:** I think, Mr. Chair, I'm going to defer to my colleague on this question, because, in essence, you're asking within the existing threshold what the leakage rate is of taxes that should be collected that aren't being collected. I'm not sure I'm in a position to be able to answer that. That is one factor that has to go into that kind of theoretic calculation.

**Mr. John Ossowski:** As I mentioned earlier, I think for us to really give an estimate of what that number is, we'd have to do a far greater quantity of randoms to get a sense of what those verifications found, and then extrapolate from there about what the number might be.

**Mrs. Brenda Shanahan:** Okay. Maybe just to get a bit more granular, we know that compliance officers are able to collect a certain amount of tariffs. There's a calculation here that it is approximately four to 11 times their individual salaries. What is your thinking around that? Is it adding more compliance officers? Is that necessarily multiplied? Is there an exponential effect there on the amount of tariffs that can be collected?

**Mr. John Ossowski:** I could speculate, but I think, in general, when you throw an auditor at a case, they always find something. They take great pride in that.

I think, depending on the particular mode and the particular good, there could be a very high return on investment, but I would expect a return on investment that makes it worthwhile for the Department of Finance to consider funding us for more. That's a choice that has to be made amongst all the other pressures that they have across the system.

**Mrs. Brenda Shanahan:** What's interesting, if I may, Chair, just on the cultural side, when folks know that there's more checking and verification going on, it tends to promote better behaviour. Would you agree? If that's not being seen, then the incentive there is to try your luck, as we've heard here today.

**Mr. John Ossowski:** I would say no one likes to hear that they're being audited.

**Voices:** Oh, oh!

**Mrs. Brenda Shanahan:** Or simply verified at the border.

**Mr. John Ossowski:** As good as it might be for you, it's like a trip a dentist.

**Voices:** Oh, oh!

**Mrs. Brenda Shanahan:** We'll let the auditor off, but being verified at the border, just knowing that you're going to be that one

out of three who will be verified, then the other two are on their best behaviour.

**Mr. John Ossowski:** Absolutely. People pay attention.

**The Chair:** Again, it's this balance because if it was random, if every third person going through the border is going to be an extensive check, it's really great until you're that third person, and all of a sudden you're slowed down at the border. It's the same with trade. It's here we have the balance.

Mr. Nuttall, please, and you're probably going to have the final word. You only have a few minutes.

**Mr. Alexander Nuttall:** I have just one question of verification, then I'll share my time with Mr. Christopherson.

To Finance Canada, what is the interest rate related to individuals not filing their taxes on time and paying the resulting penalties after a year?

**Mr. Rick Stewart:** I don't have that information with me. We'll follow up with you and get that information.

**Mr. Alexander Nuttall:** The CRA. Okay.

**Mr. Rick Stewart:** It's a CRA question, yes.

**Mr. Alexander Nuttall:** I believe it's 1% per month, yet we possibly have situations where there are foreign businesses paying 1% per year. That's an issue.

**The Chair:** All right. Thank you, Mr. Nuttall.

Mr. Christopherson, you're going to have the final minute.

**Mr. David Christopherson:** I'm just going to make a quick statement, if I may, Chair.

In light of this issue, in light of colleagues like Mr. Massé and others who represent Canadians who are being let down by this system not working right, I would just say that this may be—and I'm only offering my opinion now—one of those times when we plan 18 or 24 months from now that we want the department back in here to address these issues, rather than waiting until the full audit is done. This is just so important and so complex, and a lot of promises have been made, that we may, indeed, want to haul them all back here and see how we're doing 18 months from now. I'll just leave that there for us to consider.

Thanks, Chair. Thanks to our guests for being here today.

• (1045)

**The Chair:** Thank you.

We also have action plans that have been submitted by the departments, and we do follow those up. I think what Mr. Christopherson says is correct. There can be callbacks. Even along the lines of the action plan, if we feel that some of those smaller targets aren't being met, it may be sooner rather than 24 months later.

We want to thank you for being here today. It's been a very interesting discussion. We thank you for your attendance. I usually put a in little qualifier that if in the next few days you feel you could provide us with more information on a certain question—there were some where we requested that, and even you may think you didn't answer with the full degree that you could have—please feel free to

submit the information to our committee, and we will see that it gets into the report if it is deemed information that we would use. The meeting is adjourned.

Thank you for your attendance.

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